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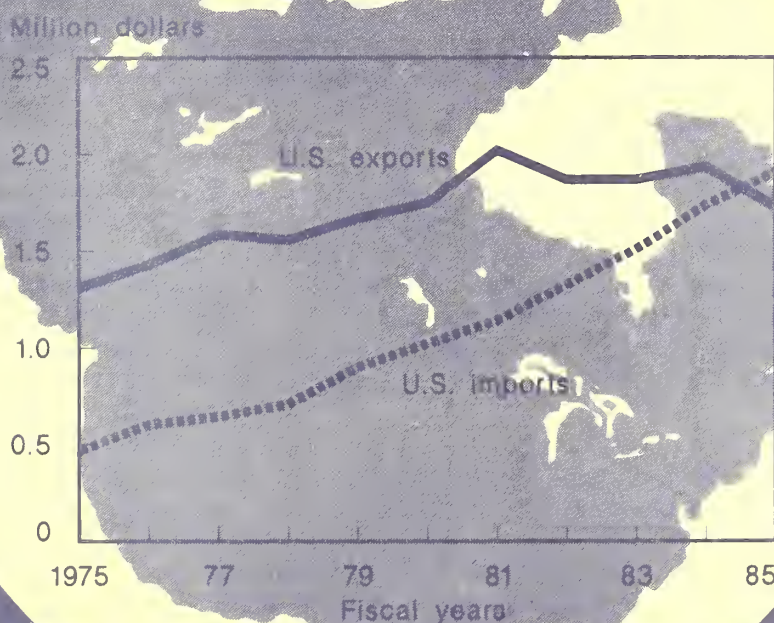
WAS-42

December 1985

World Agriculture

Outlook and Situation Report

U.S. - Canadian Agricultural Trade: Surplus to Deficit



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Note: Tons are metric, dollars are U.S., and rice is on a milled basis unless specified otherwise.

Approved by the World Agricultural Outlook Board. The next summary of the *World Agriculture Outlook and Situation* is scheduled for release on March 20, 1986. Summaries of Outlook and Situation reports, including tables, may be accessed electronically through the USDA EDI system. For details, call (301) 982-6662.

The *World Agriculture Outlook and Situation* is published quarterly. Annual subscription: \$13 U.S., \$16.25 foreign. Order from the

Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Make checks payable to the Superintendent of Documents.

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SUMMARY

World economic growth from 1983 through 1984 was generated largely by U.S. imports, which captured half of the growth of world exports in 1984. U.S. import volume in first half-1984 was 30 percent higher than the previous year, but first-half 1985 volume was only 10 percent higher than a year earlier. Domestic demand in many foreign countries has not risen sufficiently to counterbalance declines in export growth; hence, economic growth will slow in several world regions in 1985-86.

The fiscal 1985 U.S. agricultural trade balance fell 40 percent from last year to the second smallest surplus in 10 years, \$11.4 billion. The surplus will continue to shrink in 1986 as prices and export volume decline again.

Prices in 1985/86 will be lower as world stocks increase, fed by global wheat production in excess of 500 million tons and the second consecutive year of record coarse grain and oilseed production. Foreign crop producers increased their land area for the third consecutive year. Harvested cereal area in foreign countries rose 0.8 percent in crop year 1985, and oilseed area increased 1.6 percent. Most of these increases occurred in major importing countries, which helps explain the decline in U.S. crop exports.

The less developed countries (LDC's) took 40 percent of the value of U.S. agricultural exports in fiscal 1985, as they have in the prior 2 years. However, the LDC share of U.S. exports in fiscal 1986 will probably shrink because of continuing debt repayment and slowing opportunities to export to the United States.

Despite falling feed prices, world meat production, rising around 2 percent in 1985, may gain only slightly in 1986. Global pork output may increase 1 percent, and poultry production, up 3.1 percent in 1985, may grow another 2.5 percent. The United States will lead a 4-percent decline in world beef and veal production.

Amid ebbing world grain trade and increasing sentiment for protectionism in the United States and abroad, negotiations to move toward free trade with Canada, one of the top five markets for U.S. agricultural products, invite a look at the implications for agriculture in both nations. Both countries have programs to support farm incomes and protect domestic markets from imports. In some sectors, nontariff barriers influence trade patterns more than tariffs do. The complete removal of trade barriers would require significant adjustment in several commodity sectors: U.S. and Canadian dairy, U.S. sugar, and Canadian poultry and eggs, wine, and horticulture.

Among factors that influence U.S. competitiveness in world markets are the availability and cost of international transportation services. Currently, freight rates are depressed and the outlook for world shipping profits is bleak. The sustained slump in world shipping rates has helped maintain and expand current markets for agricultural products. However, overcapacity has motivated many foreign governments to increase their protection of their own fleets. More than a third of the world's merchant marine fleet is surplus, and freight rates are expected to remain depressed for the next year or two.

WORLD ECONOMIC CONDITIONS

Global Assessment

Foreign Growth Depends on Domestic Demand

Changes in several major world economic indicators have become increasingly evident during the past 12 months. Two of these indicators originate in the U.S. economy: the decline in the value of the dollar since late February, and the slowdown in U.S. import growth since the end of 1984. The other indicators reflect generally improving economic conditions elsewhere. Foremost among them is the slight acceleration in domestic demand in Europe and Japan.

These changes bear out earlier expectations that the pattern of growth in the world economy in 1985-86 would be different from that in 1983-84. During the earlier period, world economic growth revolved around U.S. import demand. Exports generally served as the major component of foreign growth, and an increasing share of world exports found their way to the United States, which consumed half the growth in world exports in 1984.

U.S. Import Demand Slows

The sharp slowdown in the U.S. economy's expansion during the first half of 1985 brought a corresponding decline in the growth of U.S. import volumes. U.S. imports averaged 10 percent higher during the first half of 1985 from a year earlier. By contrast, U.S. imports during the first half of 1984 were 30 percent above those from the same period in 1983.

Most foreign economies have recently received a relatively smaller stimulus from U.S. import demand than during 1983-84 and are increasingly reliant upon domestic demand to maintain existing economic growth rates. For many countries, however, growth in domestic demand has lagged far behind expansion in exports. Any decline in export growth will thus result in a slower rate of overall economic growth unless domestic demand rises to offset the slowdown in exports. The fact that domestic demand has not yet done so accounts for the expected slowdown in several world regions in 1985-86.

Dollar Decline Will Slow Imports Further

The 17-percent decline in the dollar since late February will likely reinforce this shift toward a slowing of U.S. import demand, and hence lower the growth of exports by major suppliers to the U.S. market. Further declines in the dollar would accentuate the shift even more. Changes in importing patterns tend to follow changes in the dollar by roughly 18 months. Thus, U.S. imports could become stagnant some time next spring or summer in response to price increases. This assumes that the value of the dollar will remain at about its October levels.

It is likely, then, that diminished U.S. demand for imports from countries such as Japan and Canada, and those in Asia and Latin America, will dampen their overall growth in 1986. Exports represent about 17 percent of gross national product (GNP) in Japan, and about 35 percent of the exports go to the United States. Thus, exports to the United States account for about 6 percent of Japan's GNP. For Canada, Korea, Mexico, and Brazil, the percentages of GNP represented by exports to the United States are 21, 11, 14, and 4, respectively, for a simple average of 11 percent for all 5 countries.

For these countries, the increase in export values to the United States from first-half 1983 to first-half 1984 averaged 40 percent, much higher than the 10-percent increase from first-half 1984 to first-half 1985. This slowdown represents a decline in the direct contribution of U.S. import demand to growth in the countries' GNP, from 4 percent during first-half 1983-84 to 1 percent during first-half 1984-85. The contribution of U.S. import demand to economic growth in these and other countries will likely decline throughout 1986.

Europe Maintains Export Strength

Not all countries are seriously affected. European countries trade mostly among themselves, especially those in the European Economic Community (EC). Changes in U.S. import demand will not have nearly the effect upon Europe as upon Japan, Canada, and other countries. This is illustrated by total export figures comparing first-half 1983-84 with

first-half 1984-85. The volume of exports to all destinations for France, Germany, and the United Kingdom increased 4.5 percent, 8.8 percent, and 8.1 percent, respectively, during the former period, and 4.1 percent, 9.4 percent, and 10.7 percent during the latter period. Exports increased during the recent year, except in France, where they declined only marginally. Contrast these performances with those of Japan and Canada, where export growth fell from 16 percent to 7 percent in Japan and from 25 percent to 6 percent in Canada.

The continuing strength in European exports partly reflects the recent gains in the region's domestic demand. Though small compared with increases in the United States and Japan, Europe's spending on consumer and investment goods has, for the most part, been increasing at the highest rates of the 1980's. Growth in the EC's exports and domestic demand could raise 1985's overall economic growth above 1984's 2.2 percent.

The uptick in Europe's demand for consumer goods seems to be showing up in its agricultural sector through small rises in demand for meats, a food group whose demand is fairly sensitive to changes in income. Continuing high production and stocks in the EC, together with protectionist policies, will likely limit U.S. agricultural exports to that market for some time to come. [Art Morey (202) 786-1687]

Policies Affecting Dollar Exchange Rate

The value of the dollar in future months will depend in large measure on interest rates in the United States and abroad. Lower U.S. interest rates would quicken further dollar declines by lowering the differential between U.S. and foreign interest rates, if other policies do not change. Similarly, firmer U.S. interest rates would inhibit the decline of the dollar.

An increase in the M1 money supply, if well above target levels, would likely continue to lower the dollar's value, especially if monetary policy in Europe and Japan is restrictive. Japan's policy appears to be increasingly restrictive. During the 4 weeks ending in mid-November, Japan's short-term interest rates rose from 6.4 percent to 8.1, while the dollar dropped from 225 yen to 202.

Foreign currency units per U.S. dollar

Year	Mark	Yen	Pound	Guilder	Can\$
1979	1.833	219.2	.4713	2.006	1.171
1980	1.818	226.4	.4299	1.987	1.169
1981	2.257	220.2	.4983	2.492	1.199
1982	2.427	248.8	.5722	2.669	1.234
1983	2.553	237.5	.6592	2.854	1.232
1984	2.846	237.5	.7483	3.209	1.295
1985					
Jan.	3.168	254.2	.8857	3.579	1.324
Feb.	3.300	260.2	.9141	3.734	1.354
Mar.	3.296	257.8	.8903	3.724	1.383
Apr.	3.087	251.5	.8066	3.490	1.364
May	3.103	251.6	.8001	3.510	1.375
June	3.062	248.8	.7818	3.450	1.367
July	2.906	241.1	.7241	3.270	1.352
Aug.	2.792	237.3	.7226	3.151	1.357
Sept.	2.836	236.2	.7329	3.190	1.369
Oct.	2.643	214.6	.7031	2.980	1.366

Yet it is doubtful whether Japan can sustain this policy. While raising the value of the yen, increases in Japan's interest rates also impede domestic demand and exports. Unless fiscal policy becomes more expansionary, a shortfall in these areas will cause Japan's economic activity to slow even more than projected in 1985/86.

Stronger-than-expected U.S. economic growth may lead the Federal Reserve to cut money supply growth back within target range. This would tighten credit to prevent both the possibility of large price increases and any sudden, large declines in the dollar. Such a change would attract foreign investments into U.S. credit markets, thereby raising the value of the dollar.

In recent months, the dollar has continued its decline which began in early 1985 following a period of renewed strength during the first 3 weeks of September. When the finance ministers and central bank governors of the United States, United Kingdom, Germany, France, and Japan (the G-5 countries), announced their intent to bring about an orderly appreciation of the major nondollar currencies, this rise ended and the dollar continued depreciating along its former path.

Declines in U.S. interest rates combined with slow second-quarter economic growth to lower the dollar. European interest rates followed, continuing to decline through the third quarter of 1985 even after U.S. rates stabilized.

The dollar's depreciation has been fairly steady against European currencies, reaching 2.64 German marks, 2.98 Dutch guilders, 0.70 English pounds, and 8 French francs by the end of October. Against the Japanese yen, however, the dollar has depreciated in steps--over a 10-percent drop in the week following the September announcement, followed by a further 5-percent drop in early November to around 205 yen per dollar. In addition, the U.S. dollar continues to appreciate against the Canadian dollar to near Can\$1.37, a direction begun in mid-July. [Ted Wilson (202) 786-1688]

Harvested Area

Foreign Cropland Harvested Rises

Foreign cropland harvested during 1985 was slightly larger (0.8 percent) than in 1984, based on estimates of harvested areas of cereals and oilseeds. For the third consecutive year, foreign crop producers used more land than in the previous year. All these estimates are based on harvested areas of cereal and oilseed crops which comprise about two-thirds of harvested area in developing countries.

Foreign cereals producers increased their harvested areas only slightly (0.8 percent). They may have been influenced by the U.S. carryover cereal stock increase (28 percent) and by U.S. area increases (1.1 percent). Foreign producers continued to benefit during early 1985 from the appreciation of the dollar in terms of foreign currencies, however.

Concurrently, foreign oilseed producers (growers of soybeans, cotton, peanuts, sunflowerseed, and rapeseed) were motivated both by a prospective 5.7 percent decline in U.S. harvested area and by continued appreciation of the dollar. They increased their harvested areas 1.6 percent. A more aggressive response could have been restrained by the large increase in carryover stocks of U.S. oilseeds (83 percent, the largest relative increase of recent record).

Slight increases (1.5 percent) in major importing countries and other foreign countries (1.1 percent) accounted for essentially all the net increase in harvested area in foreign countries. Harvested area in

major foreign exporting countries (including minor importers of some cereals or oilseeds) in 1985 was essentially unchanged from 1984. These relative trends in harvested area in each of these 3 country groups were similar to most since 1982. The relatively large increases in importing countries suggest that import substitution has been a strong motivation for expanding crop agriculture abroad since 1981.

Foreign crop producers increased their use of chemical fertilizers on 1984 crops about 7 percent. Fertilizer applications on 1985 crops were projected by the Food and Agriculture Organization of the United Nations (FAO) to be moderately higher than in 1984. Total resources used in crop production abroad during 1985 likely increased only slightly from 1984. This slow growth in resource commitments followed 2 consecutive years in which significant increases were reported. [Richard Taylor (202) 786-1705]

U.S. AGRICULTURAL TRADE

In fiscal 1985, U.S. agricultural trade resumed its downward course which will probably continue in 1986, given the coincidence of continued strong overseas farm production and sluggish world economic growth. Rising U.S. imports and declining exports caused the U.S. agricultural trade balance to fall 40 percent to \$11.4 billion, its second smallest surplus in 10 years. A further decline is expected in 1986.

U.S. agricultural exports are expected to fall 9 percent in fiscal 1986, to \$29 billion, as declining prices and volume again take their toll. Volume is expected to decline for the sixth consecutive year, but by a much smaller degree than 1985's record 17.6-million-ton drop. Prices will also be lower as a second consecutive year of both record world coarse grain and oilseed production and wheat production in excess of 500 million tons leads to increased stocks.

Increased shipments to Japan and Western Europe will be partially offset by decreased shipment to the USSR. Slightly lower Chinese corn exports will help the U.S. export position, as will lower soybean exports by competitors. Increased world soybean meal use is expected to help U.S. soybean and meal exports increase about 2 million tons, in contrast with the 2

preceding years' declines, further offsetting lower Soviet grain purchases. However, cotton export volume may fall more than 40 percent as lower-priced competitors cut U.S. market shares.

U.S. agricultural export values 1/

Commodity	1983	1984	1985	1986 F
Billion dollars				
Grains and feeds	15.2	17.4	13.3	12.0
Wheat and prod.	6.2	6.8	4.5	4.0
Rice	.9	.9	.7	.6
Feed grains and products	6.6	8.2	6.9	5.9
Oilseeds and prod.	8.9	8.8	6.2	6.2
Soybean cake and meal	1.4	1.2	.8	.9
Soybeans	5.9	5.7	3.9	4.0
Soybean oil	.5	.6	.6	.4
Livestock prod.	3.0	3.5	3.3	3.3
Poultry prod.	.5	.4	.4	.4
Dairy prod.	.4	.4	.4	.4
Horticultural prod.	2.7	2.6	2.6	2.7
Cotton, incl. lint	1.7	2.4	1.9	1.2
Tobacco	1.5	1.4	1.6	1.5
Other	.9	1.1	1.5	1.3
Total	34.8	38.0	31.2	29.0

1/ Fiscal year. F = forecast.

U.S. agricultural export volume 1/

Commodity	1983	1984	1985	1986 F
Million metric tons				
Wheat	36.7	41.7	28.5	28.0
Wheat flour	1.5	1.1	.8	1.2
Coarse grains	53.8	55.6	54.9	49.1
Rice	2.3	2.3	2.0	1.8
Feeds and fodders	7.0	6.8	6.5	6.4
Soybeans	24.5	19.2	16.6	18.4
Soybean meal	6.4	4.9	4.5	5.0
Soybean oil	.9	.8	.8	.7
Other oilcake and meal	.2	.2	.1	.1
Sunflowerseed	1.4	1.0	1.0	.8
Sunflowerseed oil	.2	.2	.1	.1
Cotton, incl. lint	1.2	1.5	1.3	.8
Tobacco	.2	.2	.3	.2
Horticultural prod.	3.0	2.9	2.7	2.8
Beef, pork, and variety meats	.4	.4	.4	.4
Poultry meat	.3	.2	.2	.2
Animal fats	1.4	1.4	1.2	1.2
Other	3.4	3.2	4.2	3.1
Total	144.8	143.6	126.1	120.5

1/ Fiscal year, actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc.
F = forecast.

Problems faced by U.S. agricultural exports are similar to those faced by other, largely Third World, commodity exporters. World economic growth will probably be lower in 1986, implying continued sluggish demand for primary commodities, while commodity production capacity remains high. At the same time, many debtors from less developed countries (LDC's) are obliged to maintain high exports to meet debt obligations without further borrowing. Hence, the wheat price skirmishes between the United States and the European Community have been preceded and repeated elsewhere in petroleum, palm oil, tin, and coffee, to name a few.

The LDC's accounted for 40 percent of all U.S. agricultural export value in 1985, as they did in the preceding 2 years, but will probably lose ground in 1986. While exports to the developed world may decline in value with prices, and the centrally planned economies will import at least \$1 billion less from the United States, shipments to the LDCs will decline even further because of continued current account difficulties.

Despite declines in interest rates and petroleum prices, which will save the LDC's billions of dollars, slowing opportunities for export to the United States, sluggish commodity prices relative to manufactures, and continued debt repayment will force many LDC's to continue restricting imports and seeking barter arrangements to conserve foreign exchange. [Stephen MacDonald (202) 786-1621]

WORLD COMMODITY DEVELOPMENTS

Wheat and Rice

The world 1985/86 outlook for wheat and rice is for declining production, small gains in consumption, and an additional buildup in already burdensome record stocks. These factors, combined with reduced import demand, will continue the slide in world prices.

Wheat Competitors Show Largest Decline

Wheat production in 1985/86 is expected to drop 7 million tons from last year, with declines in both the United States and the foreign sector. The year-to-year reductions in the foreign sector will be concentrated in

the major exporting countries, down 9 percent. Of this group, only Canada is forecast to expand production, and even its gain will be much less than previously expected.

Canada has had numerous problems with the 1985/86 crop. The crop suffered from hot, dry conditions in the summer and extremely wet and cold fall weather which delayed harvesting in parts of Saskatchewan and Alberta. Much of the crop has been harvested with a moisture content far above normal, and protein levels are low. Consequently, the Canadian Wheat Board has temporarily suspended sales of high-quality wheat to nontraditional customers. In addition, the St. Lawrence Seaway was closed for 18 days, delaying exports during the traditionally heavy October-November shipping period.

With the Northern Hemisphere harvest completed, the focus has shifted to the Southern Hemisphere. Australia and Argentina, the two largest producers, experienced dryness early in the season but benefited from timely precipitation during the critical grain-filling stage in October.

Australian production is estimated at 16.5 million tons, down 1.8 million from last year. Dryness, especially in Western Australia, limited plantings and reduced expected yields below those of the past 2 years. Argentina, however, may harvest more than 12 million tons, up 1 million from earlier forecasts. Also, Argentine export taxes were reduced in October from 28 percent to 16.5 percent, which will permit farmers either an extra \$10-per-ton profit or to share their profit with exporting firms and international customers.

Brazil's wheat crop, at 3.5 million tons, is 10 percent above the 1976/77 record. High domestic support prices (about \$250 per ton) encouraged a 40-percent increase in planted area over 1984/85, and excellent weather boosted yields to new highs. Thus, Brazil's wheat imports may be down nearly 2 million tons from last year.

World Wheat Trade Lowest in 5 Years

World wheat imports are expected to drop 18 million tons below 1984/85 (July-June) to 90.6 million, the lowest world trade since

Wheat: World production, consumption, and net exports

Country	1983/84			1984/85			1985/86 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	65.9	30.2	38.7	70.6	31.4	37.9	65.8	30.2	27.0
Canada	26.6	5.7	21.8	21.2	5.5	19.4	22.0	5.5	16.5
Australia	22.0	2.8	11.6	18.3	3.0	16.7	16.5	3.0	15.4
EC-10	59.2	49.6	11.2	76.3	52.9	15.0	67.0	52.8	11.7
Argentina	12.8	4.7	9.6	13.2	4.6	8.6	12.3	4.6	7.4
Turkey	13.3	13.8	.3	13.3	13.7	-.7	12.7	13.7	-.4
Major importers									
USSR	79.0	97.0	-20.0	73.0	96.1	-28.0	83.0	95.0	-16.0
China	81.4	91.0	-9.6	87.8	95.2	-7.4	86.0	92.5	-6.5
Eastern Europe	35.4	37.1	-1.5	41.6	40.1	+1.4	37.5	39.0	-1.6
Other W. Europe	8.8	9.7	-.2	10.8	10.3	+.5	9.8	10.0	-.3
Brazil	2.1	6.4	-3.9	1.9	6.4	-5.4	3.5	6.5	-3.5
Mexico	3.2	4.1	-.6	4.2	4.4	-.4	4.4	4.5	-.3
Other Latin Am.	1.6	8.3	-6.9	1.8	8.5	-6.8	2.1	8.7	-6.8
Japan	.7	6.2	-5.6	.7	6.3	-5.3	.9	6.3	-5.2
India	42.8	42.0	-2.5	45.1	43.2	+.2	45.0	43.1	+.9
South Korea	.1	2.4	-2.4	—	3.0	-3.1	—	2.5	-2.3
Indonesia	0	1.6	-1.6	0	1.4	-1.2	0	1.4	-1.5
Other Asia	18.2	24.1	-6.8	16.8	25.1	-7.9	17.7	25.2	-8.2
Egypt	2.0	8.0	-6.7	1.8	8.5	-6.6	2.0	8.6	-6.7
Morocco	2.0	4.1	-2.1	2.0	4.2	-2.5	1.8	4.2	-2.3
Other N. Afr./ME	10.6	24.3	-15.0	9.4	24.8	-15.0	12.6	25.8	-13.8
Other Africa	3.0	7.9	-4.4	3.2	8.7	-5.6	3.4	8.4	-5.1
Residual	.3	.4	-3.4	.6	.3	3.8	.3	.6	+1.6
World	491.0	481.4		513.6	497.6		506.3	492.1	

Trade on July-June years. -- = negligible. F = forecast.

1979/80. An expected 11-million-ton drop in USSR imports will account for much of the decline. The USSR harvested about 10 million tons more wheat than last year, and consequently will need to import much less than the record-setting 28 million tons in 1984/85. Other major importers such as Brazil, China, and Korea will also be cutting back.

Competition among major exporters has intensified in recent months and shows no signs of easing. In May 1985, the United States announced the Export Enhancement Program (EEP) through which the U.S. Government offered bonus commodities to U.S. export firms to promote sales to targeted markets. The first sales under the EEP were to Egypt in mid-September for 175,000 tons of wheat flour and 500,000 tons of wheat. In addition, 500,000 tons of wheat were sold to Algeria in mid-October. Further EEP sales are expected to Egypt, Morocco, Turkey, and Yemen.

Excluding the EEP sales, Argentina is once again offering the lowest wheat prices.

Argentina registered sales of 4.4 million tons in one week in late October at prices around \$92 per ton (f.o.b. Buenos Aires). Fortunately for other exporters, Argentina has only about 7.5 million tons available for export this year.

U.S. Wheat Exports To Drop Sharply

In spite of the EEP-inspired sales boost, U.S. wheat exports are well below last year's pace. For the year, U.S. exports are expected to be only 27.2 million tons, the lowest since 1976/77. The United States, with prices supported by a loan rate of \$121 per ton, has found it increasingly difficult to compete with nations such as Argentina. Consequently, the United States will bear much of the brunt of the reduced 1985/86 world import demand.

Global Rice Trade Slips

Global rice production in 1985/86 is expected to reach 317 million tons, down 3 million from last year. The 4-million-ton decline in China will be partially offset by small gains in India, Indonesia, and Thailand. Production will outpace consumption again, causing world stocks to rise.

Rice: World production, consumption, and net exports

Country	1983/84			1984/85			1985/86 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	3.2	1.8	2.1	4.3	1.9	1.8	4.2	1.9	1.7
Thailand	12.9	8.0	4.5	12.0	8.0	4.1	12.4	8.2	4.3
Pakistan	3.3	2.3	1.1	3.5	2.4	.9	3.4	2.5	.9
China	118.2	117.1	1.1	124.8	123.9	.9	120.4	119.6	.8
India	59.8	58.0	-.5	59.5	58.3	.2	60.0	58.8	.2
Burma	9.0	8.3	.7	9.3	8.8	.5	9.1	8.6	.5
Japan	9.4	10.2	-.1	10.8	10.2	0	10.8	9.8	0
Italy	.6	.3	.3	.7	.3	.3	.7	.3	.3
Australia	.5	.1	.4	.6	.1	.4	.5	.1	.5
Major importers									
Indonesia	24.0	25.3	-.4	25.8	25.1	+.4	26.2	25.6	+.2
South Korea	5.4	5.5	+.1	5.7	5.6	0	5.4	5.5	0
Bangladesh	14.5	14.9	-.6	14.6	14.9	-.3	15.0	15.4	-.2
Vietnam	9.6	9.7	-.2	10.0	10.4	-.4	9.8	10.1	-.4
Other Asia	17.4	18.5	-1.1	17.3	18.7	-1.5	17.5	18.8	-1.3
USSR	1.8	1.8	-.1	1.8	1.9	-.1	1.8	1.9	-.1
Brazil	6.1	6.1	0	6.1	6.6	-.4	6.3	6.4	-.3
Other Latin Am.	4.6	4.9	-.1	4.9	4.7	+.1	5.0	5.1	+.2
Iran	.9	1.7	-.7	.9	1.7	-.8	.9	1.7	-.8
Other N. Afr./ME	1.9	3.6	-1.8	1.8	3.7	-1.9	1.9	3.9	-1.9
Malagasy	1.4	1.5	-.1	1.4	1.5	-.1	1.4	1.5	-.2
Nigeria	.9	1.6	-.4	.9	1.5	-.5	1.0	1.4	-.5
Other Africa	1.8	3.8	-2.2	1.9	3.9	-2.0	2.1	4.1	-2.1
Residual	.5	1.7	-2.0	.7	2.0	-1.6	.6	2.0	-1.8
World	307.7	306.7		319.3	316.4		316.4	313.2	

Trade on calendar years; F = forecast.

Global rice export prices continue their steep 5-year decline. Thai export prices, in U.S. dollars, have dropped more than 50 percent since 1980. U.S. rice export prices, which are supported by the loan rate, have declined to a lesser extent. Government-sponsored programs to promote self-sufficiency have been successful in many former importing nations, while many nations insulate domestic prices from world price fluctuations. Thus, despite sharp declines in export prices, total world rice trade has also declined from 12.7 million tons in 1980 to an expected 11.4 million in 1985.

Rice exports in calendar 1985 are forecast to drop for all the major exporters--the United States, Thailand, China, Pakistan, and Burma. The U.S. export forecast remains at 1.9 million tons, down 200,000 from 1984. U.S. exports are expected to decline to 1.8 million tons in 1986 as world trade stays about the same. [Scott Reynolds (202) 786-1691]

Coarse Grains

World Production Dwarfs 1984/85 Record

Last year, global coarse grain production topped 800 million tons for the first time, completely overshadowing a rise in world trade and leading to the third-largest ending stocks since 1963/64. In 1985/86, trade is forecast to fall significantly, production to rise substantially, and ending stocks to set a record.

Coarse grain production in 1985/86 is estimated at 844 million tons, 4.5 percent above a year ago, as all major producers expect large harvests. About 34 million tons (or 95 percent) of the increase will be in the United States.

Record Competitor Supplies

Since much of their 1984/85 production gains were carried over, 1985/86 exportable supplies of the major foreign exporters (Argentina, Australia, Canada, South Africa, and Thailand) are record large. At 71 million tons, supplies are up 4 percent from 68.2 million a year earlier.

Canadian stocks of barley account for most of the major exporter inventories and production. While early-season dryness caused a small reduction in production prospects, the 1985/86 crop is expected to be more than 1 million tons above last year. However, persistent rainfall and snow at harvest time has reduced crop quality. South Africa's production prospects appear good despite dry conditions early in the season.

The European Community is not generally considered a major coarse grain exporter, although it exported an average of 4.5 million tons to non-EC countries during 1977/78-1984/85. Very large production gains in 1984/85 allowed exports to reach a record 7.5 million tons. Although production may drop 3 million tons in 1985/86, large carryin stocks should allow exports to exceed 6 million tons.

Import Demand To Decline

Production among the major coarse grain importing nations (Eastern Europe, the EC-10, other Western Europe, the Soviet Union, Mexico, Japan, Korea, and Taiwan) is expected to decline about 2 million tons from a year earlier. However, larger carryin stocks will more than offset the production declines, resulting in record supplies.

Production in the centrally planned economies is mixed. Outturn in the USSR is forecast to increase over 9 percent, even though coarse grain area only matched last year, and was about 2 million hectares below 1983/84. Weather patterns were average or favorable for the first time since 1978/79. Further, nongrain feed production is forecast 10 percent above 1984/85 and about 5 percent above the 1983/84 record. Production in China continues large, although the estimate has dropped in recent months because of drought in the northern provinces and major flooding in the northeast.

Export Competition Intensifies

Coarse grain trade in 1985/86, excluding intra-EC trade, is forecast, at 92 million tons, about 9 percent below a year earlier. Increased supplies in the major importing countries have lowered import demand and, combined with large exportable supplies in the major exporters, have intensified competition. Heightened competition can be

Coarse grains: World production, consumption, and net exports

Country	1983/84			1984/85			1985/86 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	137.1	147.8	55.2	237.1	163.3	54.9	271.4	170.3	48.5
Canada	21.0	18.9	5.2	21.9	18.7	2.9	23.5	19.0	4.4
Australia	9.4	2.8	5.5	8.5	2.1	7.2	7.8	2.7	5.1
Argentina	17.4	7.6	10.9	19.1	7.4	10.6	18.9	7.2	11.9
Thailand	4.2	1.3	3.3	4.7	1.3	3.2	5.6	1.5	4.0
South Africa	5.1	7.1	-2.8	8.5	6.8	-6	8.9	7.2	1.0
Major importers									
USSR	99.0	109.5	-11.9	86.0	110.9	-27.1	94.0	109.0	-17.0
China	92.7	92.3	+3	96.4	91.4	+5.3	88.2	84.8	+3.3
Eastern Europe	67.1	68.5	-1.2	73.6	72.0	-2	66.4	70.2	-2.6
EC-10	64.1	68.0	-5	75.0	67.4	+3.2	72.0	69.2	+4.4
Other W. Europe	22.1	30.6	-6.6	28.6	30.7	-3.9	28.6	32.1	-3.0
Brazil	21.5	21.4	-2	22.0	22.2	-4	22.1	22.0	-5
Mexico	13.8	18.4	-5.9	14.5	18.8	-4.2	14.6	19.2	-4.6
Venezuela	.8	2.4	-1.6	1.0	2.6	-1.8	1.7	2.9	-1.2
Other Latin Am.	7.7	9.7	-1.9	8.5	10.3	-1.8	8.5	10.4	-1.7
Japan	.4	20.5	-20.7	.4	21.1	-20.8	.4	21.3	-21.5
Taiwan	.2	4.4	-4.0	.3	4.3	-4.0	.3	4.5	-4.2
South Korea	.9	4.7	-4.1	.9	4.8	-3.8	.7	4.9	-3.9
Other Asia	49.5	50.9	-1.7	47.1	49.9	-2.4	47.6	50.3	-2.4
Egypt	4.3	5.8	-1.5	4.6	6.3	-1.7	4.9	6.7	-1.9
Iran	1.5	2.6	-1.2	1.3	2.7	-1.4	1.3	2.8	-1.5
Israel	--	1.2	-1.1	.1	1.1	-1.0	.1	1.4	-1.3
Other N. Afr./ME	15.0	25.4	-10.6	14.0	24.4	-10.9	19.1	28.5	-9.6
Other Africa	29.8	31.5	-1.5	32.9	34.4	-1.7	36.7	38.3	-1.6
Residual	.8	.8	-1.4	1.0	.4	+4	.8	.5	-4.1
World	685.4	754.1		808.0	775.3		844.1	786.9	

Production on crop year basis, trade on October-September year. Includes corn, barley, sorghum, oats, millet, rye, and miscellaneous grains. -- = negligible. F = forecast.

International commodity prices

Year	Wheat				Corn		Soybeans	Soyoil	Soymeal 44%	
	U.S. 1/	Arg. 2/	Can. 3/	Aust. 4/	U.S. 5/	Arg. 2/	U.S. 6/	U.S. 7/	U.S. 7/	Hamburg 8/
Dollars per metric ton										
1975	149	147	181	167	122	126	210	559	141	162
1976	134	128	149	147	115	114	223	414	179	203
1977	105	100	116	113	98	93	271	524	212	240
1978	131	126	134	119	105	102	259	565	189	226
1979	162	159	171	142	118	117	278	610	160	254
1980	176	203	192	175	129	159	272	522	217	271
1981	176	190	194	175	135	139	272	464	223	269
1982	161	166	165	160	110	109	233	404	197	233
1983	158	138	167	161	137	133	269	518	222	255
1984	153	135	166	153	138	132	271	678	184	210
1985										
Jan.	149	110	164	153	121	108	231	633	150	175
Feb.	148	111	164	150	120	106	228	649	139	163
Mar.	146	114	164	149	122	109	231	691	139	171
Apr.	146	113	174	148	122	110	231	751	130	174
May	139	112	172	145	118	109	222	715	123	165
June	134	107	173	141	117	111	222	715	122	158
July	130	107	171	134	117	112	215	636	128	159
Aug.	125	98	157	128	106	113	202	521	134	159
Sept.	128	93	164	131	103	88	200	494	144	168
Oct. 9/	129	92	172	134	100	90	186	454	154	182

1/ No. 2 hard winter, ordinary protein, f.o.b. Gulf ports. 2/ F.o.b. Buenos Aires. 3/ No. 1 western red spring, 13.5% protein, in store Thunder Bay. 4/ July-June crop year, standard white, f.o.b. selling price. 5/ U.S. No. 2 yellow, f.o.b. Gulf ports. 6/ No. 3 yellow, f.o.b. Gulf ports. 7/ Decatur. 8/ F.o.b. ex-mill. 9/ Preliminary.

seen in the form of larger subsidies for grain exports and the generation of new export programs. Despite these measures, record coarse grain production, another glut of wheat supplies, and increased supplies of feed-quality wheat have depressed prices and made the world trade forecast bleak.

Soviet coarse grain imports are forecast to fall 10 million tons from last year's record, and may total only about 17 million. As in the recent past, the United States is expected to continue as a major source, although much of the year-to-year drop in Soviet imports will come at the expense of the United States. Japanese imports are forecast to continue their slow, steady climb in 1985/86, increasing 1 million tons to 21.5 million.

China's imports are forecast at 300,000 tons in 1985/86, as large production has reduced the need to import. Only infrastructure problems have kept imports from falling closer to zero. In the early 1980's, China imported several million tons of coarse grain annually. Further, production gains have allowed China to reenter the export market, with about 5.4 million tons exported in 1984/85 and another 3.6 million expected in 1985/86. China's exports compete with U.S. sales to Japan, Korea, and the Soviet Union.

U.S. Exports Lowest in a Decade

U.S. coarse grain exports in 1985/86 are forecast at 49.7 million tons, compared with 55.6 million last year. U.S. sales are falling at a faster rate than global sales, as competitors strive to maintain or increase sales at any apparent cost. The U.S. market share, after averaging over 61 percent during 1980/81-1983/84, fell to 55 percent last year and may drop to 53 this year. [James Cole (202) 786-1691]

Oilseeds

While 1984/85 exhibited weak soybean meal demand and tight oil supplies, 1985/86 will shift back to modest growth in protein meal needs and ample oil. However, larger U.S. export prospects may not boost U.S. prices, because the soybean crop will still exceed use and stocks will build to a record.

World Output Record

World oilseed production in 1985/86 is forecast at a record 196 million tons, despite a small gain in area. In the past 5 years, yields have expanded about twice as fast as area. In 1985/86, U.S. soybean yields far exceeding the previous record will account for much of the gain in global oilseed production. Foreign yields in soybeans, cottonseed, and peanuts are expected to be below last year, while only a marginal gain is forecast for rapeseed.

The prospects for large gains in output and only modest growth in use will result in a record stock buildup, particularly in the United States. This has already depressed U.S. and world soybean prices to their lowest in a decade. The weak demand prospects for soybeans and protein meal, in general, will affect U.S. stocks more than the rest of the world.

The U.S. loan program offers producers a national average of \$5.02 per bushel. If prices do not increase sufficiently to pay off the loan and accumulated interest, the producer can let the Government have the soybeans. Government-owned stocks are expected to more than double in 1985/86. Thus, the U.S. season average price is unlikely to fall very far below the loan rate. Foreign producers, however, may be willing to sell at lower prices, especially if they do not want to accumulate stocks.

Competing Soybean Supplies Lower

Planting has begun in the Southern Hemisphere. The estimated area for soybeans will decline slightly. But even though policies in Brazil would appear to favor expanded grain area to improve the domestic food situation, recent dry weather may make farmers plant more soybeans, resulting in a smaller-than-expected decline in acreage. Argentina may plant about the same soybean area as last year.

Soybean Meal Use To Rise Slightly

U.S. soybean exporters in recent years have faced a rapid rise in foreign production and a drop in global needs. Foreign soybean exports rose nearly 4 million tons in the past 2 years, while U.S. exports dropped 8 million. Larger supplies of other oilseeds, including

sunflowerseed, rapeseed, and cottonseed, have helped to reduce demand for soybeans and soybean meal. With the rapid rise in sunflowerseed output in Argentina and Western Europe, Western and Eastern Europe's rapeseed, and China's cottonseed and rapeseed, the composition of world protein meal use in the past 2 years has shown a shift from soybean meal to other varieties.

For most foreign countries, the rate of livestock expansion in 1986 will be small. Global economic growth of roughly 3 percent this year may slow somewhat in 1986, primarily because of an expected slowdown in

U.S. growth and aggregate import demand. Also, consumption of agricultural goods in developed countries remains relatively stable because of already high consumption levels and little growth in populations. Thus, world protein meal consumption in 1985/86 will rise only 2 percent, with large gains in rapeseed and sunflowerseed expected.

In the EC, gains in pork production may slow to 2 percent, following a 3-percent rise in 1985. Poultry may also increase only a small amount. Therefore, soybean meal use may show little change from 1984/85, as the

Soybeans and products: World production, consumption, and net exports

Country	1983/84			1984/85			1985/86 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Soybeans									
Major exporters									
U.S.	44.52	26.75	20.21	50.64	28.03	16.23	57.94	29.12	18.37
Brazil	15.20	12.51	1.59	17.20	12.85	3.23	16.40	13.00	2.35
Argentina	7.00	2.98	2.97	6.50	3.86	3.29	7.00	3.60	2.75
China	9.76	1.67	.73	9.70	1.60	1.00	9.50	1.60	.80
Major importers									
EC-10	.09	9.15	-9.31	.14	9.70	-10.06	.29	9.42	-9.64
Japan	.22	3.83	-4.73	.24	3.80	-4.51	.22	3.97	-4.80
Spain	0	2.60	-2.60	.01	2.10	-2.10	.01	2.10	-2.10
Eastern Europe	.61	1.36	-.84	.78	1.28	-.59	.58	1.28	-.79
Mexico	.60	1.95	-1.44	.55	2.00	-1.45	.70	2.10	-1.50
Taiwan	.01	1.15	-1.36	.01	1.15	-1.40	.02	1.15	-1.40
USSR	.56	1.30	-.95	.43	1.13	-.85	.53	1.14	-.85
Residual	3.99	5.38	-4.27	4.92	5.95	-2.79	5.20	6.14	-3.19
World	82.56	70.63		91.12	73.45		98.39	74.62	
Soybean meal									
Major exporters									
U.S.	20.65	15.98	4.86	22.25	17.67	4.46	22.96	17.96	4.99
Brazil	9.70	1.69	7.71	9.94	1.85	8.44	10.08	2.00	8.05
Argentina	2.37	.14	2.12	3.08	.27	2.88	2.88	.25	2.60
Major importers									
EC-10	7.30	14.61	-7.10	7.73	15.19	-7.51	7.51	15.05	-7.51
Eastern Europe	1.07	4.53	-3.50	1.01	4.18	-3.17	1.02	4.26	-3.22
USSR	.99	1.32	-.83	.86	1.41	-.55	.87	1.47	-.60
Japan	2.96	3.03	-.18	2.93	3.07	-.06	3.06	3.16	-.08
Mexico	1.42	1.44	-.05	1.46	1.50	-.08	1.53	1.54	-.03
Residual	8.65	12.70	-3.03	8.64	13.16	-4.41	8.84	13.58	-4.20
World	55.11	55.44		57.90	58.30		58.75	59.27	
Soybean oil									
Major exporters									
U.S.	4.93	4.35	.83	5.20	4.49	.75	5.29	4.51	.66
Brazil	2.35	1.52	.94	2.41	1.52	.83	2.44	1.55	.80
Argentina	.49	.07	.43	.64	.07	.50	.59	.08	.51
EC-10	1.64	1.29	.41	1.74	1.33	.39	1.68	1.32	.34
Spain	.46	.02	.54	.37	.02	.28	.37	.02	.30
Major importers									
India	.09	.80	-.81	.12	.57	-.40	.13	.68	-.45
Pakistan	0	.28	-.30	0	.22	-.20	0	.21	-.20
Eastern Europe	.24	.41	-.18	.22	.38	-.16	.22	.37	-.15
Iran	.02	.32	-.32	.02	.34	-.34	.02	.36	-.36
Morocco	.01	.14	-.13	.01	.18	-.16	.01	.16	-.16
Residual	2.51	3.75	-1.41	2.53	4.04	-1.49	2.62	3.98	-1.29
World	12.74	12.95		13.26	13.16		13.37	13.24	

For soybeans, consumption refers to crush. Trade and consumption on marketing year except for Brazil and Argentina which are on an October-September year. F = forecast.

EC utilizes more domestically produced sunflowerseed and rapeseed meals.

U.S. Exports To Gain

U.S. soybean exports could improve from 1984/85's sharply reduced level. Much of the gain will come in the first half of the crop year, when Brazil and Argentina have little to export. Brazil has officially closed export registrations for 1985 soybeans. Also, smaller 1986 competitor production and exports are expected. U.S. 1985/86 soybean exports are forecast at 18.4 million tons, up more than 2 million from 1984/85, but still far below the exports in the early 1980's.

U.S. soybean meal exports may receive a boost because ample world oil supplies and sharply reduced prices have eroded crush margins. Therefore, the United States will likely crush soybeans and export soybean meal. U.S. 1985/86 soybean meal exports are forecast at nearly 5 million tons, up more than 500,000 from last year.

World Oil Supplies Rebound

Vegetable oil supplies are rebounding sharply, at the same time that import demand slows. Malaysia has produced large supplies of palm oil in recent months and Indonesia has sharply expanded its palm and coconut oil exports. At the same time, India has curtailed buying, perhaps because of less need for imported oil in the public distribution system. Palm oil prices have tumbled roughly \$200 per ton since June. Malaysian outturn should continue large through the end of 1985, creating large stocks in Malaysia and a great incentive to export low-priced oil.

[Jan Lipson (202) 786-1691]

Meat

World meat production will rise around 2 percent in 1985, but may show only a small gain in 1986. Despite lower world prices for feed ingredients, a number of factors are restraining production gains in livestock and poultry. A lack of hard currency and/or credit continues to restrict some countries' ability to import needed feed ingredients. Sluggish economic growth continues to restrict demand for meat, while production growth in some major poultry meat importers has reduced

their import needs. Also, cattle herd rebuilding will lead to reduced slaughter in some major beef producers. Volume of meat trade increased in 1985 because of larger red meat shipments, particularly beef. Meat trade should rise again in 1986 but at a more modest pace.

Beef Output To Drop

Beef and veal output in the major producing countries is likely to reach 42.6 million tons in 1985, only 1 percent above last year. Most of this increase is due to larger slaughterings in the USSR, Oceania, Argentina, and Brazil. Output in the major importers increased slightly in 1985, but the United States is forecast to lead a 4-percent decline in 1986.

Production in the major exporters will grow 2 percent in 1985. However, output of major U.S. suppliers will show much larger gains, perhaps 5 percent. World exports of beef and veal will rise 5 percent to 4.7 million tons in 1985 (3.5 million tons excluding intra-EC), and will continue to expand in 1986, perhaps reaching 4.8 million tons (3.6 excluding intra-EC).

In 1986, production is forecast to drop 2 percent to 41.7 million tons, led by large declines in the United States and EC. EC output rose dramatically in 1984 as the dairy supply control program reduced dairy herds. Even though beef output is declining, stocks approaching 1 million tons at the end of 1985

Beef and veal production

Country	1983	1984	1985 P	1986 F
Thousand metric tons				
United States	10,748	10,929	10,968	10,354
Canada	1,036	997	990	955
Mexico	1,229	1,323	1,379	1,423
Argentina	2,384	2,570	2,700	2,600
Brazil	2,400	2,300	2,400	2,500
France	1,764	1,936	1,830	1,654
Germany, Fed. Rep.	1,487	1,609	1,655	1,620
Italy	1,149	1,182	1,205	1,170
Total EC-10	6,849	7,400	7,312	6,937
Eastern Europe	2,474	2,504	2,468	2,452
USSR	7,011	7,200	7,400	7,500
Australia	1,412	1,248	1,334	1,371
Other	5,564	5,499	5,601	5,596
Total	41,107	41,970	42,552	41,688

P = preliminary. F = forecast.

will continue to overhang world meat markets and pressure prices. A 200,000-ton sale of EC beef to the USSR was recently announced, and the EC has increased subsidies on beef exports to designated Asian markets.

Inventories have begun increasing in Australia and New Zealand, and additional gains are expected in 1986. Slaughter has been up in 1985 as dry conditions in some meat-producing areas may have caused early slaughtering. The larger herd will enable Australia to show a small gain in beef production next year. There is concern that although the EC has agreed to stay out of Oceania's traditional Asian markets, increased EC subsidized beef sales to other markets could disrupt normal trading patterns and lower world prices. Latin America has not been as fortunate; larger EC sales are already causing disruptions in their exports to the important Middle East market.

Pork Production Up Slightly

Pork output in 1985 in the major producing countries is forecast at 52.9 million tons, 2 percent above last year. Most of the increase will come from a 7-percent gain in China, the world's largest producer. Output in the major importers should remain static in 1985, but could gain marginally in 1986.

The major exporters will show a 4-percent gain in 1985 output. Pork exports, up 2 percent in 1985, are estimated at 1.7 million tons. Exports in 1986 are forecast to

remain near 1985, while output in the major exporters may rise only 1 percent.

Total production in 1986 is forecast to increase only 1 percent because of a small decline in the United States and moderating gains in China, the EC, and the USSR. In the EC, lower feed prices improved the hog/feed price ratio in 1985. However, moderating hog prices and sluggish economic growth could make the picture for EC producers less rosy in 1986.

Poultry Meat Output Higher

World poultry production continues to gain and is expected to reach 24.9 million tons in 1985, 3.3 percent above last year. Significant gains in the United States, as well as increases in the USSR, Japan, and Brazil, are responsible. Output in 1986 is forecast at 25.5 million tons, up 2.5 percent.

Production in the major foreign exporters and importers is expected to grow around 3 percent in 1985, to 3.1 and 6.6 million tons, respectively. The additional output in the major exporters seems to be going to domestic consumption rather than exports. World poultry exports declined in 1985 and are forecast to continue down in 1986 as production increases in the major importers reduce import demand.

Major importers such as the Soviet Union, Saudi Arabia, and Iraq have been making a concerted effort to increase production and decrease reliance on imports. Saudi Arabia has also increased its duty on fresh, chilled or

Pork production

Country	1983	1984	1985 P	1986 F
Thousand metric tons				
United States	6,894	6,719	6,699	6,660
Canada	852	863	875	900
Mexico	1,136	942	864	915
Germany, Fed. Rep.	2,731	2,744	2,785	2,870
France	1,624	1,625	1,640	1,635
Netherlands	1,201	1,258	1,340	1,375
Total EC-10	9,705	9,774	10,049	10,210
Eastern Europe	6,632	6,682	6,650	6,680
USSR	5,760	5,800	5,600	5,750
China	13,161	14,450	15,510	15,840
Japan	1,429	1,430	1,485	1,470
Other	5,230	5,133	5,217	5,277
Total	50,799	51,793	52,949	53,702

P = preliminary. F = forecast.

Poultry production

Country	1983	1984	1985 P	1986 F
Thousand metric tons				
United States	7,151	7,435	7,813	8,154
Canada	537	558	587	587
Mexico	538	646	681	623
Brazil	1,580	1,398	1,470	1,490
France	1,284	1,247	1,245	1,250
Total EC-10	4,293	4,261	4,281	4,325
Eastern Europe	1,846	1,966	2,001	2,056
USSR	2,596	2,635	2,700	2,800
Japan	1,257	1,330	1,373	1,398
Other	3,669	3,836	3,965	4,051
Total	23,467	24,065	24,871	25,484

P = preliminary. F = forecast.

frozen chickens and other poultry from 10 percent to 20.

Brazil, with its markets for whole broilers receding, has shown willingness to diversify into the parts market (especially with Japan). Thailand's production and exports to Japan have been increasing rapidly. [Linda M. Bailey (202) 786-1691]

Cotton

The 1985/86 world cotton outlook points to large but declining production, small gains in use, and stagnant import demand. Foreign production, despite an expected 9-percent decline from 1984/85, will continue to exceed use, and another 5 million bales will be added to stocks. International prices have declined sharply from last year and will continue weak.

Foreign production is forecast to drop 6 million bales from last year, mostly from a drop in area and yields in China. However, dry weather and low prices have taken their toll on production in several other countries. In Brazil, poor price prospects for 1985/86 and production loans favoring other crops are expected to cause area to drop 10 percent or more. Yields are also expected to decline. Pakistan suffered from a dry spell at sowing time, but area may only drop 140,000

hectares, and with timely rains furnishing adequate irrigation water, yields are expected to match last year.

Import Demand Sluggish

While major foreign exporters as a group are expected to produce less in 1985/86, large carryin stocks will result in supplies more than sufficient to meet stagnant import demand. Foreign mill use is expected to grow around 4 percent. The gains will be concentrated in countries able to meet the increased use from domestic production. The major Asian importers are expected to show declining use and imports.

Trade Competition Intense

Weak import demand will combine with burdensome supplies to generate a strongly competitive world market. Since many foreign buyers and sellers expect prices to decline even further in coming months, neither wants to hold stocks. Because the U.S. loan program offers U.S. producers an alternative to selling cotton on the depressed world market, U.S. prices will remain uncompetitive. U.S. exports are expected to drop to 3.5 million bales in 1985/86, down from 6.2 million last year and the lowest since 1975. [Gerald R. Rector (202) 786-1691]

Cotton: World production, consumption, and net exports

Country	1983/84			1984/85			1985/86 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million 480-lb. bales									
Major exporters									
United States	7.8	5.9	6.8	13.0	5.5	6.2	13.9	5.7	3.5
USSR	12.1	9.3	2.7	11.9	9.5	2.2	12.5	9.7	2.7
Pakistan	2.2	2.0	---	4.6	2.3	1.2	4.3	2.4	1.4
Egypt	1.9	1.3	.8	1.8	1.4	.5	2.1	1.5	.6
Turkey	2.4	1.8	.5	2.7	1.8	.7	2.4	2.0	.6
Central America	.8	.1	.7	.7	.2	.5	.7	.2	.6
Sudan	1.0	.1	1.1	.9	.1	.8	1.0	.1	.9
Brazil	2.6	2.4	---	4.2	2.7	.5	3.2	2.7	.8
Mexico	1.0	.5	.5	1.2	.6	.6	.8	.6	.3
India	6.1	6.5	.3	7.9	7.1	.2	7.2	7.3	.2
China	21.3	16.0	.6	28.7	15.5	1.1	24.0	17.2	1.4
Major importers									
Western Europe	.8	5.7	-4.7	.9	5.8	-4.8	1.1	5.9	-4.7
Japan	0	3.3	-3.3	0	3.2	-3.1	0	3.0	-3.0
Eastern Europe	.1	3.5	-3.3	.1	3.5	-3.4	.1	3.6	-3.5
South Korea	---	1.6	-1.6	---	-1.6	1.6	---	1.7	-1.7
Taiwan	0	1.2	-1.2	0	1.2	-1.3	0	1.1	-1.0
Hong Kong	0	.8	-.8	0	.6	-.6	0	.6	-.6
Residual	7.5	6.6	+.9	8.6	6.5	+.3	8.1	6.6	+1.5
World	67.6	68.6		87.2	69.1		81.4	71.9	

Year beginning August 1; consumption is mill use. --- = negligible. F = forecast.

Coffee

1985 Output Up

World coffee production in 1985/86 is currently estimated at 99.1 million bags (60 kilograms each), up nearly 8 percent from last year's crop and 10 percent higher than 1983/84. Among the 19 coffee-growing countries that produce at least a million bags annually, production will increase in Mexico, Brazil, Ecuador, Peru, Venezuela, Ethiopia, Ivory Coast, Kenya, Madagascar, Zaire, and Indonesia. Output in these areas, which will account for over 60 percent of world production, will rise about 17 percent. Production decreases, about 7 percent overall, are expected in Central America, Colombia, Cameroon, Uganda, and India, which together will account for around 27 percent of world output in 1985/86. Production is expected to be unchanged in Guatemala.

Global exports are estimated to total 70.2 million bags in 1985/86, down 0.8 percent from 1984/85. World consumption is expected to expand marginally to 92.9 million bags, but will fall short of production by 6.2 million. Consequently, 1985/86 ending stocks in producing countries are expected to increase 15 percent to 51.8 million bags. This will be equivalent to 56 percent of global consumption, up from 49 percent for ending 1984/85 stocks.

A severe drought in the major coffee-growing areas of southern Brazil could reduce Brazilian coffee production, and potential exports, in 1986/87.

Prices Likely to Increase

The International Coffee Organization's Composite Indicator Price for Other Milds and Robusta-type green coffee (1979 International Coffee Agreement basis) averaged \$1.41 per pound in calendar 1984, up 13 cents from 1983. The average declined to \$1.34 per pound in first-quarter 1985 and then to \$1.20 in the third quarter, because of large world coffee supplies for 1985/86 relative to demand. Quota operations of the International Coffee Organization, the operating arm of the International Coffee Agreement (ICA), were earlier expected to hold green coffee prices within the lower part of the prescribed ICA range of \$1.20 to \$1.40 per pound until the

middle of calendar 1986. However, the international coffee market is already reacting to prospects for a smaller 1986/87 crop in Brazil, and coffee prices now seem more likely to move into the upper part of the prescribed ICA range. [Fred Gray (202) 786-1769]

REGIONAL DEVELOPMENTS

United States

The U.S. agricultural outlook continues to be dominated by large supplies and low prices. U.S. crop production may be the second largest ever, only slightly behind 1982's record. Record yields are expected for corn, cotton, soybeans, sorghum, and rice. However, grain use is not expected to grow in 1985/86, and soybean use may increase only a small amount. Stocks will increase and large quantities of grains and oilseeds will be collateral under the Government loan program.

Net farm income, which rose sharply last year, is expected to drop in 1985, perhaps 20 percent or more from 1984's \$34.5 billion. The farm debt situation also remains precarious. Farm debt has risen significantly in the 1980's, while farm equity has fallen. Asset values have dropped as land values in many parts of the country have plummeted. Both farm equity and land values fell significantly in 1984, but declines in 1985 are not expected to be as severe.

The debate in Congress over agricultural policy and the farm bill is also being influenced by the current supply and price situation. Budget expenditures are also a major concern: total direct Government payments in 1985—deficiency, diversion, disaster, and storage payments—may reach double last year's \$4 billion. However, many in Congress are reluctant to reduce price support programs because of the poor financial outlook for farmers. [Carol Goodloe (202) 786-1663]

Canada

Bad Luck for Canadian Farmers

Western Canadian farmers have suffered three setbacks during the 1985 growing

season--drought, unseasonal rains, and a transportation accident. As a result, grain exports and farm income for 1985/86 will be reduced.

Many farmers were hit by a severe drought that sharply reduced grain yields. As the harvest commenced in August, unseasonally heavy rains also began. Harvest progress was delayed, reducing crop quality. Canada will have smaller-than-usual supplies of high-protein wheats, but larger supplies of feed wheat will be available to compete with U.S. feed grain exports. The heavy rains will likely reduce area seeded to fall crops.

The small, late harvest meant reduced farmer deliveries and slow export movement out of the St. Lawrence Seaway at the beginning of the marketing year (August 1). Exports had just picked up in September, reflecting a large sale to the USSR, when a lock wall collapsed on the Welland Canal, a vital link on the St. Lawrence Seaway. Increased transportation costs associated with the delay will mean lower prices for Canadian farmers.

Canadian Hog Exports Fall, Pork Rises

The July 25 decision by the U.S. International Trade Commission that placed a countervailing duty on Canadian live hog exports to the United States (but not on pork) is affecting Canadian exports. According to Canadian data, live hog exports have fallen off sharply in recent months, while pork exports have picked up. Canadian hog slaughter is running 4 percent above a year ago, which could mean continued large exports to the United States.

U.S. Exports to Canada Fall

U.S. agricultural exports to Canada fell 11 percent in fiscal 1985 to the lowest since 1979. Exports of fruits, vegetables, and nuts, traditionally about half of U.S. agricultural exports, dropped the most. The outlook for 1986 is not optimistic. Low U.S. prices, the continued strength of the dollar, and only moderate economic growth in Canada will depress the value of U.S. farm exports. [Carol Goodloe (202) 786-1663]

Western Europe

Another Large Grain Crop

Western Europe harvested another large grain crop in 1985--only about 13 million tons below 1984's 192-million-ton output. Although the EC's 1985 wheat production is estimated 9 million tons below the previous year, large carryin stocks and slow export sales will probably keep 1985/86 ending stocks near last year's 15-million-ton record. The EC has raised wheat export subsidies to more than \$60 a ton in recent weeks--compared with less than \$5 a year ago--in response to the declining dollar, lower world prices, and efforts to maintain export volume in a declining world market.

A large increase in EC sunflower seed production contributed to Western Europe's record 1985 oilseed harvest. Lower prices for feed grains and many other feedstuffs are stimulating livestock production. Production of pork, lamb, and poultry meat rose during 1985 and the expansion is expected to continue in 1986. The broiler/feed price ratio is the highest in 3 years. Chick placings for broiler production grew in the first half of the year while placements for layers declined. Breeding pigs have also increased during the past year. EC milk and beef production fell in 1985 as producers adjusted to the second year of a dairy quota program, but output is expected to stabilize in 1986.

U.S. Exports Lowest Since 1973

U.S. agricultural exports to Western Europe continued to decline during the last quarter of fiscal 1985--although more slowly than in the first half. Since peaking at \$12.6 billion in fiscal 1980, U.S. agricultural shipments have declined steadily to \$7 billion in 1985. U.S. exports to Western Europe declined for all product categories except nuts, tobacco, and miscellaneous products. Declining U.S. exports can be attributed to the high value of the dollar, increasing self-sufficiency in Western Europe, and weak European economic growth.

U.S. exports to Western Europe are unlikely to improve in fiscal 1986. The upward trend in European agricultural production and self-sufficiency is expected to continue.

Although the dollar has depreciated 15 to 20 percent against the European Currency Unit since its February peak, it is only slightly below the average rate for fiscal 1984. A further decline in the dollar seems to offer the only hope of increasing the competitiveness of U.S. products in the European market. Exports to Western Europe as a percentage of total U.S. agricultural exports have fallen from 36 percent in 1977 to 30 in 1980 and 21 in 1985.

Trade Disputes Escalate

The United States imposed a 40-percent duty on imported pasta products from the EC in retaliation for the EC's failure to resolve a 16-year-old citrus dispute. The dispute over U.S. access to the EC market for citrus products, and another over EC subsidies for pasta exports, had been decided by a GATT panel in the United States' favor. The U.S. action comes after the EC had offered few initiatives to resolve the issue. The EC claims that since their tariff concessions for citrus products benefit developing countries and Israel, they should not be a source of contention with the United States. The EC is retaliating by raising duties on U.S. walnuts and lemons. The United States has also initiated a GATT complaint against the EC's export subsidies for wheat, while the EC has threatened a similar action against the U.S. export enhancement program.

The International Trade Commission (ITC) made a preliminary finding against the American Grape Growers Alliance, who had claimed that U.S. grape growers were harmed by the import of EC wine at less than fair value. The ITC found this not to be the case.

EC Green Paper Discusses Future of CAP

In July 1985, the EC Commission released a "green report" entitled Perspectives for the Common Agricultural Policy, a consultative document for Community policy makers that contains recommendations for achieving economic, social, and environmental objectives over the next 15 years.

Rapidly expanding and costly surpluses in the EC were a major reason for the report. The document states that EC agriculture must become more responsive to world prices to achieve the economic objectives of minimizing

surpluses of agricultural products, restraining budget outlays for storage and export refunds, and avoiding international trade disputes with other exporters.

A more market-oriented price policy would focus on grains because of the relationship between grain and livestock production. The recommendations in the report also focus on: shifting production away from surpluses to other products in which the Community is deficient, encouraging increased use of grains and other crops in industrial and energy applications, and releasing land and labor from the agricultural sector at socially desirable rates.

Several options for reducing agricultural production are spelled out, including "set-aside" programs which provide for conversion of farmland to nonagricultural uses such as parks, forests, or ecological refuges. Farmers would receive compensation in proportion to their income loss. Income aid could also be granted if production was diverted to less supported products.

The green paper, which is one of several policy papers prepared in recent years, offers a comprehensive set of alternative policies. However, achieving the economic objectives of reducing budget costs under a more market-oriented policy while attaining social objectives will be an enormous undertaking, likely to fall far short of desired goals. [Marshall Cohen, Stephen Sposato, and Ron Trostle (202) 786-1717]

Australia

Outlook for Grain Production Mixed

August and September rains in eastern and southern Australia have improved prospects for the 1985/86 wheat crop, now estimated at 16.5 million tons, up from earlier estimates but down from last year's 18.3-million-ton harvest. Australia's 1985/86 wheat exports are forecast at over 15 million tons, slightly above last year's record, because of expected smaller shipments to Egypt, the Soviet Union, and some Asian markets. Australia improved its share of world wheat trade from 10 percent during the drought years of the early 1980's to over 15 percent in 1984/85. Its share is expected to increase to

17 percent this year as total wheat trade contracts significantly.

Coarse grain production for 1985/86 is estimated at 7.7 million tons, 9 percent below last year. Australia's exports are also forecast to decline, with reduced sales to the Soviet Union and the Middle East.

Beef Exports Increase

Australia's 1985 beef and veal exports are expected to increase 7 percent, with increased shipments to the United States and Japan. Sales to the United States in 1985 are expected to increase 11 percent to 250,000 tons, despite low U.S. prices from weak demand and high production. The strong value of the dollar continues to make the U.S. market a lucrative one for Australian exporters.

Exports of beef to Japan, Australia's second market, will continue to rise as scheduled by a 1984 agreement under which Japan will increase its beef import quota 9,000 tons annually through 1987. Although Australia's beef exports to Japan will increase, its share of the Japanese market will gradually decline because 6,900 tons of the annual increase will be filled mostly with U.S. grain-fed beef.

EC Competes in Asian Beef Market

In July, the EC began to subsidize exports of beef and veal to 10 Asian markets to reduce burdensome intervention stocks. Although Australia responded with concern, the EC's action will not have much impact on Australian beef exports in the short run. The two will compete directly in only 3 of the 10 targeted markets--Hong Kong, Indonesia, and the Philippines. These three imported only 29,000 tons of beef in 1984, including 2,000 from Australia--less than 1 percent of Australia's total beef and veal exports. More importantly, the EC has given assurances that it will not compete in those Asian markets where Australia has a significant trade interest, such as Japan, South Korea, Malaysia, Singapore, and Taiwan. [Paul V. Johnston (202) 786-1611]

Japan

U.S. Farm Exports Drop

U.S. agricultural exports to Japan in fiscal 1985 fell to \$5.7 billion, down sharply from 1984's record \$6.9 billion. Feed grain exports declined 13 percent to 13.7 million tons, primarily reflecting lower corn sales as a result of competition from China. Soybean, wheat, and cotton exports also declined. Although U.S. exports of beef and veal were up, pork exports dropped 68 percent to 8,000 tons. U.S. poultry meat sales declined about 13 percent to 48,000 tons, hurt by strong competition from Thailand and Brazil.

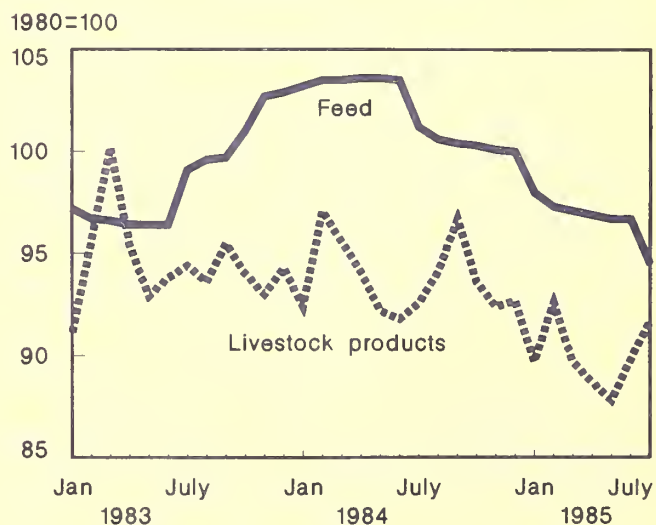
U.S. farm exports to Japan are forecast to decline in fiscal 1986, held back by slower economic growth and continued strong competition in certain commodity markets, including corn, cotton, pork, and poultry.

Japan Agrees To Strengthen Yen

Finance ministers from Japan, the United States, France, West Germany, and Britain met in New York on September 22 and decided to implement policies that would lower the value of the dollar. Since then, the yen has appreciated about 13 percent (from 240 in September to 210 yen on November 1) against the dollar.

A stronger yen will reduce the price of Japan's farm imports and should, if sustained, be particularly helpful to Japan's livestock

Feed and Livestock Price Indexes, Japan



sector by further increasing profit margins, which have been improving since May.

Good Rice and Bumper Wheat Crops

According to a Government survey, Japan will have a good rice harvest for the second year in a row. The 1985 crop is estimated at 10.75 million tons, only slightly less than last year's bumper harvest of 10.81 million. The better-than-anticipated harvest is the result of slightly increased growing area of 2.35 million hectares and favorable weather. The good outturn means that Japan will accomplish its goal of replenishing stocks to 1.2-1.5 million tons at the end of the current marketing year, 1 year earlier than planned.

Japan's 1985 wheat harvest is estimated at 874,000 tons, 18 percent above last year's bumper crop. The excellent harvest is the result of an increase in both area and yields in Hokkaido, a major wheat-producing region. On the other hand, the 1985 barley crop is expected to be 19,000 tons less than last year, at 337,000 tons. Barley area declined an estimated 3 percent. [*Lois A. Caplan (202) 786-1611*]

Middle-Income East Asia

U.S. farm export sales to Middle-Income East Asia (South Korea, Taiwan, and Hong Kong) dropped from \$3.6 billion in fiscal 1984 to \$3.1 billion in 1985. The decline is mainly due to lower prices and keener competition in the coarse grain and cotton markets. U.S. agricultural exports to the region are expected near \$3 billion in fiscal 1986.

U.S. Coarse Grain Sales To Increase

U.S. coarse grain exports to the region in fiscal 1985 declined 16 percent to 5.1 million tons, mainly because of competition from the People's Republic of China (PRC) in the South Korean market. The PRC exported 1.5 million tons of corn to South Korea in 1985, cutting the U.S. market share from 91 percent in 1984 to 47 in 1985. In 1986, U.S. coarse-grain sales should rebound significantly because of flood-reduced corn supplies in the PRC's northeastern region. U.S. coarse grain exports to Taiwan are expected to decrease because of Taiwan's promise to buy 200,000 tons of corn

from South Africa in 1986, and also because of Taiwan's increasing use of rice for feed.

U.S. Cotton Exports Fall Sharply

U.S. cotton exports to the region decreased 8 percent in fiscal 1985 and are expected to decrease further in 1986. The U.S. market position eroded mainly because U.S. cotton prices were generally higher than competing staples from the PRC, Pakistan, and Australia. The price differences, however, were offset somewhat by superior U.S. quality, the reliability of U.S. supply, and, in South Korea's case, improved GSM-102 credit terms. As in the case of corn, the PRC has become a major cotton exporter to the region. PRC cotton accounted for about half of Hong Kong's imports in 1985, while South Korean cotton imports from the PRC were up two-thirds.

Even though Taiwan prohibits direct trade with the PRC, trade sources estimate that about 200 tons of PRC cotton entered Taiwan via third countries. Slowing economic growth and growing protectionist sentiment in major textile markets has caused uncertainty in the region's yarn-spinning and textile industries. As a result, cotton imports are expected to drop sharply.

Rice Production Decreased

In South Korea, an unusually late typhoon slowed the rice harvest, lowered the crop quality, and reduced yield. The forecast for 1985 rice output was lowered to 5.3 million tons from 5.7 million in 1984. Still, no imports are expected for 1985/86.

In Taiwan, the Rice Diversion Program, now in its second year, has already succeeded in reducing planted area about 9 percent. Farmers diverted 40,000 hectares of first-crop rice land to other crops in 1985. To trim the burdensome rice surplus, the Government sold 297,341 tons at favorable subsidized prices to Taiwan's feed industry from June 1984 to May 1985. Another 400,000 tons for feed use are expected to be purchased from June 1985 to May 1986. During Jan.-Sept. 1985, Taiwan exported only 44,500 tons, mainly to Nigeria. [*Sophia Wu Huang (202) 786-1611*]

USSR

Soviet gross agricultural production in 1985 will be a record as the Soviets overcome the lingering effects of the poor 1984 grain harvest and the severe 1984/85 winter. Record grain imports in 1984/85, inventory adjustments in the livestock sector, a record 1985 forage crop, and increased quantity and quality of grain, cotton, and sunflowerseed crops are supporting the record output. These increases will offset the declines in potato, sugarbeet, vegetable, and fruit production.

Because of improved supplies of livestock feeds and milling quality wheat, and adjustments in livestock inventories, grain imports in July 1985/June 1986 will likely be well over a third less than the estimated 55.5 million tons imported in 1984/85. Fall grain sowing ran somewhat behind schedule, which means that the Soviets will likely fall 2 to 3 million hectares short of their fall sowing plan of 34 to 35 million. The grains sown, however, got off to a good start with favorable weather, and use of intensive technology on about 40 percent of the winter grain area.

The substitution of nongrain feeds for grain in livestock rations is also helping the Soviets to restrain grain imports, and may even have allowed some minor rebuilding of grain stocks since 1982/83. Recently released USSR data suggest that the Soviets continue to be successful in their drive to limit dependence on grain feeding. They have concentrated on expanding production and storage capacities for nongrain feeds, and reduced grain in cattle rations.

During the second year (October 1984/September 1985) of the U.S.-USSR Long-Term Grain Agreement, the Soviets purchased only 2.9 million tons of wheat, rather than the 4 million required. Instead, they took an estimated 17 million tons from other suppliers. In the same period, the Soviets imported 15.8 million tons of U.S. corn, which accounted for almost 60 percent of their estimated coarse grain imports.

Under General Secretary Gorbachev's leadership, Soviet managers and academics are emphasizing two key themes for revitalizing the Soviet economy, including the agricultural sector--activation of the human factor and a technical revolution. The Soviets are

experimenting with ways to streamline the Soviet planning process and make it more exact. At the same time, they stress the benefits of increasing managers' and workers' decisionmaking power, accountability, and incentives.

The Soviets stress that the major weaknesses in technology are problems in disseminating and adapting scientific innovations. Despite the speculation in the Western press, it is unlikely that the Soviets will move toward a more market-oriented economy to increase worker productivity and the rate of technical innovation.

Efforts to increase worker productivity have so far relied upon the campaign against drunkenness and the use of contract arrangements between workers and farm management to increase worker accountability. As part of the longer-term solution to the agricultural problem, Gorbachev stressed six areas for technological advancement in a September 7 speech in Tselinograd: (1) use of intensive technology in crop production (translation--the usual techniques used in the West, such as proper hybrids, agrochemicals, cultivation techniques, and crop rotations); (2) better use of clean summer fallow; (3) efficient utilization of irrigated and drained lands; (4) increased livestock productivity; (5) improved storage and processing of agricultural produce; and (6) the application of genetic and cell engineering. [*Kathryn Zeimetz (202) 786-1710*]

Eastern Europe

Production of major crops in 1985 is expected to be above average but below last year's record output. The grain crop will be 10 to 12 percent below last year. Only East Germany will achieve higher crop production than in 1984, while Bulgaria, Romania, and Yugoslavia are most affected by poor harvests because of a severe drought. The corn crop seemed to be hurt most. Potato, sugarbeet, and oilseed production will be down but livestock production will be nearly the same as last year.

The region's hard-currency trade balance has improved during the last few years, mainly due to food self-sufficiency and austerity programs. However, the 1985 surplus on the

hard-currency trade account is likely to be less than one-fourth of last year's. This, coupled with continued austerity programs, and economic crisis in Romania, will result in lower food imports in 1985 than last year. However, imports may increase by 1986.

Farm Output Generally Down

Total regional grain production in 1985 is expected to be 102 to 106 million tons, down from the record 114.5 million last year. This decline is largely due to lower production of corn, wheat, and barley in the Balkan countries. However, the East German grain crop is estimated to reach a record 11.6 million tons. The region's corn crop will be down 15 percent from last year, wheat 10, barley 13, and rye 9.

Total oilseed production will be down a little, from 4.8 million tons last year to 4.6 million in 1985, though the rapeseed crop will improve in East Germany and Poland. The sugarbeet crop will also be lower than last year, from 50.7 million tons to 48.0 million, because of lower production in Bulgaria, Poland, Romania, and Yugoslavia. The potato crop will also be slightly down at 63 million tons.

No substantial changes can be expected this year in livestock production. The total will remain around 12.8 million tons, with a marginal improvement in Poland and East Germany. Little change is likely in Czechoslovakia and Hungary, but there may be lower production in the Balkan countries. Total milk and egg production is likely to remain about the same as last year.

Crop production prospects for 1986 seem to be better than average in the northern countries but less promising in the Balkans where soil moisture is still deficient and precipitation up to now has been inadequate.

Trade Prospects Remain Poor

U.S. agricultural exports to Eastern Europe have been falling throughout the 1980's and are expected to decline further, from about \$757 million in 1984 to about \$630 million in 1985. Outlook for 1986 U.S. exports to the region are even less promising. The reasons for this include: improved production in recent years; continued competition from

other suppliers in Western Europe and Latin America; self-sufficiency and austerity policies in the region to reduce the foreign debt burden; and a lower-than-expected hard-currency trade balance, which is forecast to decrease from \$5.3 billion in 1984 to \$1.2 billion this year. This balance is insufficient to service the foreign debt burden, let alone expand imports. Nevertheless, Poland plans to import 2.5 million tons of grain. Yugoslavia and Bulgaria may also be in the market for smaller amounts of corn, and Hungary for oilseed meal. [Francis Urban (202) 786-1710]

China

For the first time since 1977, China's farm production dropped this year. Livestock output rose, but crop production fell because of smaller grain and cotton crops. Despite lower production, China's agricultural imports remain small, and cotton, coarse grain, and soybean exports continue.

Crop Output Drops

Total agricultural output fell in 1985. Grain production dropped about 5 percent because of cutbacks in acreage, poor weather, and slower growth of input use. Farmers shifted rice and coarse grain area to other crops because of uncertainty about price and marketability. The Government restricted its purchase of grain for the first time this year. Severe flooding in the northeast had a devastating impact on the region's coarse grain and soybean crops; initial reports put grain production in Liaoning and Jilin Provinces down 30 to 50 percent.

The cotton crop was also down sharply, as the Government cut purchase contracts with farmers about 30 percent in an effort to control burgeoning stocks. Farmers shifted about 15 percent of cotton area to other crops.

With incentives for producing grain and cotton curtailed, area of other crops increased, in some cases dramatically. Rapeseed area increased over 30 percent, and area of peanuts and sunflowerseed also showed substantial gains. The Government continued to guarantee purchases of these crops at premium prices. Acreage of sugar, tobacco, hemp crops, and a wide variety of other crops also increased. Growing diversification of

crop production will be a main feature of agricultural development in coming years.

With another good wheat crop, wheat imports in 1985/86 are likely to fall from the 7.4 million tons imported in 1984/85 to the lowest since 1976/77. While significant imports of corn and soybeans are not expected this year, exports of these crops will fall somewhat because of lower crops in the northeast, the major export surplus region. Cotton exports, however, will rise from the 1.2 million bales exported in 1984/85. U.S. agricultural exports to China in fiscal 1986 may drop below the \$239 million shipped in 1985.

Livestock Gains

The livestock sector made substantial gains in 1985. Improved grain and oilmeal supplies from the record harvests of the last several years, the expansion of feed manufacturing facilities, and improving profitability of livestock production were largely responsible. Pork production, which accounts for over 90 percent of red meat output, rose 1 million tons to 15.5 million. Milk output increased by a substantial margin, as did egg and poultry production.

Price controls on most livestock products were eased this year, and both producer and retail prices rose sharply. Expanding livestock production has a high priority in the new 5-year plan which begins in 1986. For example, output of manufactured feed is scheduled to increase to 50 million tons in 1990 from 12 million in 1984. [*Frederic M. Surls (202) 786-1616*]

South Asia

Indian Cereal Supplies Remain High

India's 1985/86 rice harvest is forecast at a record 60 million tons because of good weather in most rice-producing regions. However, fall harvests of coarse grains, pulses, peanuts, and cotton have been affected by poor monsoon rainfall in western and south central India. Good October rains will likely mitigate some of these losses, and also benefit winter plantings of coarse grains, pulses, oilseeds, and wheat.

Indian Government wheat stocks remain well above target and another good harvest in 1986 could boost stocks further. With stiff competition in export markets, efforts to reduce the wheat surplus will focus on expansion of subsidized domestic distribution. Another good rice crop in 1985/86 will likely lead to surplus stocks and, possibly, the renewal of non-basmati coarse rice exports.

Oil Imports May Rise

India's vegetable oil imports are expected to fall from a record 1.66 million tons in 1984 to about 1.15 million in 1985 because of good 1984/85 oilseed harvests, stable domestic prices, and large carryover supplies of imported oils. Oil imports are projected to rise to about 1.5 million tons in 1986 because of reduced stocks and a poor 1985/86 peanut crop. Low palm oil prices have boosted the palm oil share of imports in 1985, and this trend will likely continue in 1986. Indian cotton supplies are projected to remain ample in 1985/86, with larger export quotas likely for long-staple cottons.

Pakistan Outlook Mixed

Pakistan's 1985/86 rice harvest is estimated to be marginally below last year's, but stocks are ample and 1986 exports are projected to rise to 1 million tons. October rains have enhanced prospects for a 1986 recovery in wheat production, and 1985/86 (July/June) wheat imports may fall below the currently estimated 1.7 million tons. The 1985/86 cotton harvest is estimated at 4.3 million bales, 7 percent below last year's record. However, with record carryover stocks, exports are projected to rise to 1.5 million bales. Pakistan's edible oil imports in 1985 are now expected to fall 9 percent to about 660,000 tons, because of record cottonseed oil supplies. Imports are projected to rise to about 730,000 tons in 1986, with palm oil continuing to account for the bulk of purchases.

Record Harvests Expected in Bangladesh

Bangladesh's 1985/86 rice harvest is estimated at a record 15 million tons, primarily because of good weather. Conditions are also favorable for another record wheat crop in 1986. Wheat imports during 1985/86 (July/June) are estimated at

1.6 million tons, 15 percent below 1984/85. Rice imports are expected to drop 70 percent to about 200,000 tons. Low prices are stimulating record palm oil purchases by Bangladesh. Palm oil is expected to account for 70 percent of total oil imports of about 180,000 tons in both 1985 and 1986. [Maurice R. Landes (202) 786-1614]

Southeast Asia

Thailand Suspends Rice Tax

Thailand has suspended its 2.5-percent ad valorem rice export tax, which could lower export prices as much as \$6.55 per ton. However, the rice "premium," the specific tax on rice exports (now about 3 percent of the f.o.b. price), remains in effect. To improve the competitiveness of Thailand's textiles and improve trade relations with the United States, the cotton import duty was reduced 33 percent and a specific tax has replaced the ad valorem tax. The specific tax, based on quantity rather than price, will favor high quality, premium-priced U.S. cotton.

Record corn production has led to an exportable surplus of 3.65 million tons and the lowest export prices in 10 years. Ex-mill prices are about \$77 per ton, 45 percent lower than last year. Cassava root production has fallen 26 percent to 16.7 million tons. The export availability of pellets and chips will reach 6.5 million tons, 2 million above the EC quota.

Indonesia Harvests Bumper Rice Crop

Another record rice harvest (26.2 million tons) and higher soybean and peanut production have strengthened Indonesia's food security position. This 2-percent increase over 1984 rice output and high Government stocks limited 1985 rice imports to about 40,000 tons, compared with 387,000 in 1984. Indonesia's 1985 rice self-sufficiency was highlighted by exports of 215,000 tons.

Malaysia Palm Oil Prices Weaken

Malaysian palm oil production rose 14 percent to 3.8 million tons in 1984/85 (October/September), and crude palm oil prices are sharply lower in 1985. Recently, this price downtrend accelerated because of

India's decision to postpone purchases for October-December delivery. India is expected to increase its purchases of Malaysian palm oil for early 1986 delivery because of reduced stocks and a poor 1985/86 peanut crop. Palm oil prices may remain low as Malaysian stocks build to near capacity. [Jitendar S. Mann (202) 786-1614]

Sub-Saharan Africa

Limited Recovery in the Sahel

Weather across the Sahel is improving and production prospects are generally better now than at any time since 1982, although some areas are still experiencing drought. More than 1.2 million tons of food aid in 1984/85 effectively limited casualties in Sahelian countries. Some recovering areas, such as Mauritania, however, continue to require additional emergency aid as effects of the crisis persist.

In 1983, food production declined sharply in Senegal, Burkina, and Chad, and by 1984 all Sahelian countries were affected. Widespread drought and a civil war in Chad, as well as perennial problems of undeveloped infrastructure, insufficient foreign exchange, and limited commercial inputs contributed to the food emergency. Conditions in Sudan, Ethiopia, and Mozambique were even more severe, eventually leading to an unprecedented 8.4 million tons of food aid to Africa in 1984/85, of which nearly 15 percent went to the Sahel. Food aid to Africa and the Sahel was more than 50 percent above 1983/84.

Yield and Output Prospects Improve

Some improvement in yield and output is expected for all countries in the region. Senegal and Gambia received generally good rainfall, boosting yield projections above the average for the 1980's. In northern Senegal, near Podor, the rainfall remains as much as 20 percent below normal. Grain output for the two nations is projected to be 20 percent above 1984, but Senegal's peanut production is expected to decline. As relative prices for peanuts fall, farmers are converting their land to grain production.

Mauritania, Mali, and Burkina have also received rainfall at or above normal, and

yields are expected to be above the 1980's average, especially in Mali. Dry areas remain in southeast Mauritania near Nema and in north Burkina around Ouahigouya. Output, while not a record, is expected to be well above 1984, despite seed shortages and population shifts that constrain production. Mauritania continues to need protein foods--and eventually, additional grain imports--but grain stocks are sufficient for immediate needs. The Burkina grain crop may be large enough to permit exports in 1986.

Food production in Niger is expected to recover to 1983 levels and eliminate the need for emergency food aid. There are several small areas which had unusually low rainfall, but most of the country had favorable rainfall, raising expected yields to the average for the 1980's. Livestock losses from the drought have not been replaced, but many herders supplemented their income by growing off-season crops this year.

Rainfall in Chad is generally well above the past 3 years and has been normal for the current season. Dry areas remain around Kanem and Lac in the west and in parts of Moyen Chari in the south. Yields on food crops are expected to be normal and no further emergency food imports will be required. The ongoing civil war and other factors, however, will hinder production potential while the presence of refugees will raise the importance of food distribution. Cotton production has been constrained more by the disruptions of war than by the weather, a pattern which is expected to continue.

In Cape Verde, 1985 rainfall has been about 80 percent of normal, but an early end to the rainy season damaged the corn at the critical tassel stage, severely reducing expected yields. Since 90 percent of Cape Verde's grain consumption is normally met by imports, domestic production is not a major factor in food availability.

Drought and Crisis Effects Linger

The Sahel does not have widespread drought this season but the impact of past years' drought and numerous other factors are still being felt. Among the permanent effects of the drought is desertification (productive land turning into desert), a process to which the Sahel is especially vulnerable. A period of

drought stresses the ecosystem at the desert fringe as humans and livestock extract maximum use from the already impoverished vegetation. Recovery from such stress will take many years, and there are numerous sites where the Sahara has spread. Major studies since the Sahelian drought of the early 1970's tend to show that desertification is unlikely to be so extensive as to significantly reduce production of any Sahelian country.

The enduring effects of changed family structure and human behavior are also difficult to assess immediately, even though some precedent exists from the early 1970's drought. Family structure has been altered and the pattern of change is consistent across the Sahel. Young men are most likely to migrate to cities, while children aged 1 to 5 and old people tend to suffer the most severe malnutrition. Most refugee camps report a high percentage of women and livestock herders. The losses of human life and divergent experiences of survivor groups will affect the Sahel, but these effects will be less than in areas where migration and loss of life were more common, as in Sudan and Ethiopia. Some favorable results from the crisis have been reported in Chad, where herders have apparently expanded their cropping practice and diversified their diet--improvements which may persist.

Resettlement of refugees and restocking of livestock slow short-term recovery. In mid-1985, 150,000 refugees from Chad were reported in Sudan and the Central African Republic. An equivalent number were in camps within Chad and another 200,000 had been added to the population of the capital. About 250,000 famine refugees from various countries were reported in Nigeria.

Across the Sahel, about one-fifth of the population is principally dependent on herding. Livestock losses during the drought are estimated at over 50 percent in Niger and Chad and livestock recovery will require several seasons of reduced offtake.

Many of the problems that led to the food crisis were unrelated to weather and persist even with improved rainfall. Relief efforts further revealed the weakness of transportation systems in the region, and this weakness also constrains productivity in more normal times. By most measures of

development, the Sahelian countries remain among the neediest in the world with low incomes, health, education, communication, and technology. In Chad, the hardest hit Sahelian State, civil war is still unresolved and accounts for much of the refugee population. Thus, the return of normal rainfall helps an incomplete recovery of food production in most areas of the Sahel, while severe problems remain in Chad. [Carl C. Mabbs-Zeno (202) 786-1680]

Latin America

Argentina-USSR Long-Term Agreement

The Argentina-USSR long-term agreement is being renegotiated. Argentine grain exports to the USSR are down from the peak of 1981, but the USSR remains Argentina's principal market. Argentina would like the USSR to increase its buying commitments, but an extension of the current agreement is more likely--annual shipments of 4 million tons of corn and sorghum, 500,000 of soybeans, and 90,000 of beef and veal.

The USSR wants to reduce its \$2 billion trade deficit with Argentina through increased exports or lower grain prices. But the Soviets usually purchase grain at harvest time, when Argentine grain prices are at their lowest because of limited storage facilities. Another issue involves Soviet complaints of heavy silting in the shipping channels, which means Soviet vessels must be topped off in downriver terminals in Buenos Aires. This results in higher demurrage costs and narrows the price advantage of grains purchased upriver in Rosario.

Argentina's New Crop Prospects

Forecasts indicate that overall grain and oilseed area will be down slightly for the second consecutive year, but still higher than normal. The wheat and sorghum area is expected to drop, but the corn area will be larger. Oilseed area is forecast higher for the fifth consecutive year. With normal weather, total grain and oilseed output is forecast at 42.2 million tons, down from 44.1 last year. Exports of grains, oilseeds, and oilseed products are projected to reach 28.2 million tons, 67 percent of total output. About 3.5 to 4 million tons of wheat will be exported during

December 1985-February 1986, assuming an export surplus of 6.3 million tons and normal shipping patterns following the December harvest.

South American Soybean Outlook

South American soybean area and production will be down only slightly for the harvest beginning in February 1986. Forecasts indicate that Brazil, Argentina, and Paraguay will export fewer soybeans and more soybean products than a year ago.

Domestic policies and world prices are continuing to play an important role in determining the mix of soybean and product exports. In Brazil, trade liberalization since 1984 has made soybean producers more responsive to world market prices, although policies could change next year. In Argentina, input subsidies for soybean crushers--differential export taxes on soybean and soybean products--have resulted in the rapid expansion of oil and meal exports, and reduced the availability of soybeans for export. Crushing capacity is coming on line at the rate of half a million tons annually.

U.S. Exports to Latin America Fall

U.S. agricultural exports to Latin America fell 13 percent to \$4.6 billion in fiscal 1985. Grain exports dropped almost a quarter. Mexico remained the single most important Latin American customer, but U.S. exports dropped 20 percent to about \$1.6 billion. With prices for all major commodities likely to fall further in 1986, U.S. exports to

U.S. and South American net soybean and product exports 1/

Export	1983/84	1984/85	1985/86 F
1,000 metric tons			
Soybeans			
United States	21,492	17,603	19,476
South America	4,984	6,975	6,020
Soymeal			
United States	4,848	4,239	4,387
South America	10,396	10,109	10,686
Soyoil			
United States	638	496	383
South America	1,275	1,235	1,370

1/ South America = Brazil, Argentina, and Paraguay. Exports based on the U.S. crop harvested in September and in South America in February-April. F = forecast.

Latin America are expected to decline another \$100 million in 1986. Coarse grains may increase slightly, but a substantial decline in wheat exports is anticipated, largely as a result of Brazil's record harvest. Exports of livestock and products increased 21 percent in 1985 but will decline at least 10 percent in 1986. Exports of fruits, vegetables, and nuts will also remain about the same.

Andean Tropical Product Outlook

Bananas, coffee, cocoa beans, and sugar, valued at \$1.1 billion, will account for nearly three-fourths of the Andean countries' (Venezuela, Colombia, Ecuador, Peru, Bolivia, and Chile) agricultural exports to the United States in 1984/85, or 17 percent of U.S. imports of these products. Prospects in 1985/86 are for larger crops and export supplies for all but cocoa beans. The region also exports considerable quantities of fresh flowers, fresh deciduous fruits, and wines to the United States.

Andean raw sugar production is expected to reach 3.4 million tons in 1985/86, compared with 2.9 million in 1984/85. Because of low prices, Colombia, producing nearly 40 percent of the region's total, is seeking alternative crops, even though a larger crop is forecast for next year. Coffee production in 1985/86 is expected to remain about the same. A decline in coffee production was already forecast for Colombia, with three-fourths of the region's output. The recent volcano eruption destroyed some coffee in storage and may cause a further decline in production.

The Andean region produced a large 169,000-ton cocoa bean crop in 1984/85, mostly because of the strong recovery in Ecuador's production. A smaller crop is forecast for 1985/86. Over the long run, Ecuador's cocoa bean harvests are expected to grow because of orchard renovation programs, higher farm prices, and the Government's favorable policy toward production and exports.

In 1984/85, Ecuador regained its position as South America's largest exporter of bananas to the United States, followed by Colombia. While Ecuador's outlook for 1985 production is good, Colombia's production is down 18 percent because of continued drought and disease during the first half of 1985.

Caribbean Drought Cuts Food Supply

A spring drought in 1985 cut domestic food supplies in the northern Caribbean for the second consecutive year. Production declines are expected for Cuba, Haiti, the Dominican Republic, and Jamaica. Conversely, excessive rains in the southern Caribbean during the spring of 1985 apparently reduced food crop yields. Guyana and Suriname appear to have sustained the greatest losses. As a result, U.S. food and feed exporters expect continued growth in Caribbean markets for U.S. grain, oilseed, and livestock products.

Ironically, the dry spring had a positive effect on 1985 crop yields for sugar, coffee, and cocoa, because dry weather is ideal for harvesting these crops. But production of these and some other perennials will be down in 1986, because the dry weather delayed new growth for the next crop. Sugar production in Cuba and the Dominican Republic may drop 10 to 15 percent in 1986. However, additional rain from Hurricane Kate that hit Cuba in late November could actually help increase yields for crops harvested later in the year, offsetting any immediate crop losses. [Carol Goodloe (202) 786-1663]

WORLD TRADE AND FOOD POLICY

Trade Actions

U.S.-EC Citrus Trade Dispute

The United States increased *ad valorem* import duties on certain pasta products from the EC on November 1, 1985, as a result of an impasse in resolving a U.S.-EC trade dispute concerning U.S. citrus exports. The duty increase was suspended in July to provide additional time for negotiators to try to reach a compromise. The EC has retaliated against the increased U.S. duties by increasing EC duties on lemon and walnut imports from the United States.

The United States increased import duties on pasta articles (TSUS items 182.35 and 182.36) which are the product of any EC member to 40 percent *ad valorem* on those not containing egg or egg products, and 25 percent *ad valorem* on pastas containing egg. The previous tariff was 1/4 cents per pound for

pastas without egg and 1/10 cent per pound for those with egg.

The EC increased its *ad valorem* import duties on U.S. lemons from 8 to 20 percent, and on walnuts from 8 to 30 percent. EC pasta exports to the United States are about \$30 million annually. U.S. exports of lemons and walnuts to the EC amount to approximately \$1 million and \$32 million per year, respectively.

The U.S. action is in response to the impasse reached in resolving a 1982 trade complaint against EC preferences accorded Mediterranean citrus imports. A U.S. section 301 petition against unfair foreign trade practices led the United States to request a GATT panel to settle this dispute. The panel ruled in favor of the United States on fresh orange and lemon imports, recommending that the EC remove the discrimination against U.S. orange and lemon exports caused by its preference. The panel suggested that lowering EC tariffs would be one way to accomplish this.

However, the GATT Council has been unable to adopt the report by consensus of all members because of conflicting economic interests among Council members such as the EC and Spain, as well as reservations by other Council members concerning the report's implications for developing countries.

Wine Import Case Decided

The U.S. International Trade Commission (USITC) reached its final decision on October 21, 1985, on a petition concerning allegedly unfair European wine imports. The American Grape Growers Alliance for Fair Trade filed countervailing and antidumping duty petitions on September 10, 1985, against imports of table wines from Germany, France, and Italy. The Commission found no reasonable indication that U.S. industry is materially injured (or threatened with injury) due to subsidized and less-than-fair-value imports of certain table wines from those countries. The USITC decision terminates this investigation at both the USITC and at the Department of Commerce.

The Alliance filed a similar petition in January 1984, which was rejected because grape growers had no standing under U.S.

trade laws to bring such petitions. However, the Trade and Tariff Act of 1984 (P.L. 98-573), signed October 30, 1984, included grape growers under the wine industry definition for a 2-year period as part of the Act's Title IX "Wine Equity and Export Expansion Act of 1984." [Ted Wilson (202) 786-1688]

COUNTRY BRIEFS

Mexican Agriculture Suffers Disasters

The damage done to Mexico's agricultural sector by the September 19th earthquake and subsequent aftershocks has been minimal. Although there has been no apparent structural damage to production or marketing systems, there was minor damage to roads and textile factories in Mexico City. Several buildings housing agricultural and trade records were destroyed, which could affect Mexico's capacity to collect and report production and trade statistics.

A hurricane that hit the west coast on October 9 may have caused more damage than the earthquake. Soybean, sesame, and rice areas may have suffered heavy water damage. According to one report, about 5 percent of the total area in sugarcane was destroyed, but this is not expected to alter Mexico's plans to reenter the sugar export business during the upcoming marketing year.

The initial reports of damage to oilseed and rice crops will not significantly change Mexico's import needs for fiscal 1986. Increased production in other areas will compensate for the loss in the western states. However, damage to several poultry flocks and facilities in the area could increase the demand for imported live animals and meat—worth almost \$20 million to U.S. exporters in 1984.

Of greater concern for Mexican agriculture is reported damage to the winter vegetable crops and processing facilities, which could reduce exports to the United States during the peak season for Mexican fresh vegetable exports (Oct.-May). Earnings from fresh vegetable exports were about \$500 million in 1984. [Myles Mielke (202) 786-1663]

Foreign Investment Promoted in Nigeria

Following a coup in Nigeria on August 27, 1985, Africa's largest food importer continues to promote foreign investment in agricultural production. Numerous policies to increase foreign investment were passed by the previous two regimes, but few investors were willing to enter commercial farming in an economy so hampered by restrictions on foreign exchange and imports. In September and October, however, import policy was adjusted to further encourage agricultural investment. Rice and corn imports were banned. Granting of industrial import licenses was informally linked to agricultural investment by applicants. Food processors are expanding grain production to acquire inputs for beer and corn syrup for soft drinks. The Ministry of Agriculture has established area offices to facilitate investments from different world regions. These offices are modeled on a joint effort with the United States through the Joint Agricultural Consultative Committee, which was established in 1981. [Carl Mabbs-Zeno (202) 786-1680]

Turkey's Wheat Imports Continue

Estimates of Turkey's wheat production--12.7 million tons in 1985--are 5 percent lower than 1984's mediocre showing. This will necessitate at least 1 million tons of imports for the Government to maintain stocks and meet export commitments. The U.S. share of this market depends on price and credit arrangements. In the past, the United States was almost always the exclusive wheat supplier. Within the last year, because of the strength of the dollar and price differentials, Argentina and the EC have increased their share of the market. In 1985/86, half of the 1-million-ton import forecast has already been purchased; about 10 percent was of U.S. origin. Recently, the United States announced an offer of up to 500,000 tons of wheat, including CCC bonus wheat to U.S. exporters, who sell to Turkey under the Export Enhancement Program. In addition, a GSM-102 export credit guarantee program has been approved to help finance up to \$50 million in exports. [Michael E. Kurtzig (202) 786-1680]

Lower Sugar Prices Increase Dependency on Textile Exports in Mauritius

Mauritius is a small African country located approximately 500 miles east of Madagascar in the Indian Ocean. One million people live on this island, which is about the size of Rhode Island.

Very little of the country's food needs are produced domestically, as over 90 percent of arable land is devoted to sugar production. Sugar exports average almost 600,000 tons annually, placing Mauritius approximately tenth in the world export market. Despite plummeting world prices, Mauritius has been partially shielded by preferential prices received from the EC under the terms of the Sugar Protocol of the Lome Convention. Last year, over 500,000 tons were exported to the EC at four times the free-market price. Mauritius also has a small quota of 30,000 tons in the high-priced U.S. market.

Because of falling world prices and stagnant sugar production, Mauritian manufacturing has become an increasingly vital part of the economy. In 1970, Mauritius established Export Processing Zones (EPZ) to take advantage of its large, educated labor force. Under this program, the Government grants incentives (i.e., tax holidays, duty free imports of raw materials) to firms manufacturing for export. Today, there are 183 firms in the EPZ and almost half are involved in textile manufacturing.

In 1984, Mauritian textile exports amounted to approximately \$100 million. Mauritius is currently the world's third-largest exporter of woolen knitwear at over 10 million pieces a year. In 1984, two-thirds of the textile production was exported to the EC, while one-quarter went to the United States, a marked increase over the previous year. For 1985, the United States increased the Mauritian shirt import quota to 7.56 million, significantly larger than quotas of other Third World countries such as South Korea, 2.18 million, Thailand, 1.3 million, and Mexico, 1 million. [Stacey Rosen (202) 786-1680]

THE IMPACT of FREE TRADE in AGRICULTURAL PRODUCTS BETWEEN CANADA and the UNITED STATES

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Abstract: Agriculture will be one of the more difficult sectors in any free trade discussions between the United States and Canada because both countries have programs to support farmers' incomes and protect domestic markets from imports. In some sectors, such as Canadian horticulture, eliminating tariffs would increase competition from U.S. imports significantly. In other sectors, nontariff barriers exert a greater influence on trade patterns than tariffs do. The complete removal of trade barriers would require significant adjustment in several sectors: U.S. and Canadian dairy, U.S. sugar, and Canadian poultry and eggs, wine, and horticulture.

Keywords: United States, Canada, free trade, agriculture, tariff, nontariff barriers.

On September 26, Canadian Prime Minister Brian Mulroney announced his Government's decision to enter bilateral trade negotiations with the United States, seeking the "broadest possible package of mutually beneficial reductions in tariff and nontariff barriers between the two countries." The announcement followed almost 2 years of discussions about both sectoral free trade and a more comprehensive free trade arrangement.

What would free trade with Canada mean for U.S. agriculture? Over the long run, free trade would result in greater trade flows as barriers are removed. Consumers in both countries would benefit from lower prices for some products that are currently highly protected. Producers in both countries would realize efficiency gains from specialization and increased scale of production as markets expand. Canada would benefit from better access to the large U.S. market, particularly in light of growing U.S. pressures for protectionist measures. The United States would gain from expanding agricultural exports to a close-by, high-income market.

Canada is one of the top five U.S. agricultural customers, and the United States imports about 25 percent of Canada's farm exports. But over the past 5 years, spurred by the strengthening U.S. dollar, the U.S. agricultural trade surplus with Canada has been narrowing. In fiscal 1985, the United States became a net agricultural importer from Canada. Would free trade make the U.S. market more vulnerable to Canadian exports?

The following briefly describes the major tariff and nontariff barriers affecting primary commodities and how free trade--the removal of border measures such as tariffs and quotas--would likely affect the flow of trade and the industry in each country. The assessment assumes that trade restrictions are removed only between the United States and Canada, but remain in place for other countries. This distinction has important implications for commodities such as beef and dairy that have global import quotas. In many instances, removing trade restrictions will require adjustments in domestic programs; the dairy sector in both countries is a good example.

Beef and Cattle

North American beef and live cattle prices are basically determined in the U.S. market. Many tariffs were reduced by the 1979 Multilateral Trade Negotiations (MTN), and many items enter duty-free on both sides. Both countries maintain low duties on fresh, chilled, and frozen beef as well as a variety of health and inspection requirements, which have occasionally impeded trade. More importantly, both countries have counter-cyclical meat import laws that attempt to limit imports when domestic supplies are abundant, but allow larger imports when supplies are low.

Free trade would probably not have a major impact on the flow of trade or the structure of the industry in either country.

U.S.-Canada Agricultural Trade, 1984

Commodity	U.S.		Canada Share		Canada		U.S. Share	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	Mil. dol.		Percent		Mil. dol.		Percent	
Animal products	4,228	4,076	8.0	23.7	1,548	778	47.7	56.2
Beef and cattle	526	1,514	9.9	21.9	356	242	88.7	46.3
Meat	470	1,228	9.6	11.6	147	214	93.2	39.4
Live animals	56	286	12.5	65.7	208	28	85.6	100.0
Pork and hogs	121	911	13.3	45.9	493	23	79.5	67.7
Meat	113	755	13.3	34.7	337	23	70.0	67.7
Live animals	8	156	0	100.0	156	0	100.0	0
Poultry and eggs	415	118	17.6	22.9	38	85	53.1	98.2
Dairy products	373	773	2.7	7.4	186	87	5.8	12.4
Grains and feeds	17,162	566	1.3	46.3	4,666	346	5.4	84.8
Oilseeds and prod.	8,392	87	3.1	52.9	908	436	8.4	84.1
Horticultural prod.	2,849	3,129	28.1	5.0	318	1,686	49.0	65.2
Sugar and products	136	1,442	24.3	6.4	51	176	91.0	14.0
Wine and malt beverages	64	1,557	23.5	9.2	375	NA	37.6	NA
Cotton	2,441	5	3.3	0	0	94	0	95.3
Tobacco	1,511	558	0.4	3.4	86	8	24.3	80.0
Other	1,042	1/ 7,904	26.5	1.2	435	1,289	80.7	43.4
Total	37,825	19,324	5.2	9.6	8,387	4,719	24.0	59.1

1/ Mostly noncompetitive agricultural products. NA = not available.

Sources: Foreign Agricultural Trade of the U.S., Jan.-Feb. 1985 issue; International Trade Commission for wine and malt beverages.

Removal of the U.S. import law and its corresponding voluntary restraints could result in larger Canadian exports in some years. If increased U.S. imports lowered Canadian prices, Canadian federal and provincial stabilization plans, which provide deficiency payments to producers when market prices fall below a calculated support price, would likely have to be altered as the gap between market prices and support prices widened. In addition, quotas on third country imports would have to remain in place to prevent other countries from increasing beef exports to the United States or Canada, which could release additional Canadian beef for export to the United States, or additional U.S. beef for export to Canada.

Pork and Hogs

The trade balance in pork and live hogs is now heavily in Canada's favor. U.S. imports of live hogs and pork have been a source of controversy over the past 2 years. The United States recently imposed a countervailing duty on live hog imports from Canada following recent decisions by the U.S. Commerce Department and the International Trade Commission (ITC) that Canada's live hog exports are subsidized and have injured U.S. producers.

Tariffs on live hogs and fresh, chilled, and frozen pork were eliminated under the MTN

and reduced on many other pork products. Both countries maintain various health and inspection requirements. Canada requires that imported hogs be quarantined for 30 days to prevent the introduction of pseudorabies, which effectively eliminates U.S. exports of slaughter hogs. If this restriction were removed, the United States would likely ship some live hogs to Canada.

Prior to the countervailing duty, border measures did not significantly impede trade in pork. Canada's meatpackers are adjusting to the lower wages and costs in the U.S. industry, which has been able to bid hogs away from Canadian packers. Imports from Canada have likely lowered U.S. hog prices by increasing supplies.

If U.S. pork and hogs entered Canada in quantities sufficient to lower Canadian prices, Canada's stabilization programs, which operate similarly to those for cattle, would come under increasing financial pressure. If these programs were modified, Canada would produce less pork and exports would fall. On the other hand, if the U.S. countervailing duty were removed, Canadian hog imports would probably return to their earlier high levels.

Poultry and Eggs

Canada imports some U.S. poultry and eggs, but exports are negligible. No

concessions were made under the MTN, and both countries maintain tariffs on poultry and eggs. Both countries require that imports come from inspected plants and conform to processing and health requirements.

Canadian chicken, turkey, and table eggs are regulated by national supply management plans that set production quotas, establish prices, and maintain import quotas. Provincial quotas regulate movement of products among provinces. Import quotas, which are permitted by the GATT when national supply management programs are in effect, are based on a percentage of the previous year's production, and supplementary quotas are issued if necessary.

Free trade and Canadian supply management are incompatible. Canadian producers are not competitive in either U.S. or third country markets. If Canada lifted its import quotas, increasing U.S. exports could force Canada to change its supply management programs, significantly altering the structure of the Canadian industry.

Dairy Products

Trade in dairy products is negligible because the industries in both countries are highly regulated and protected. Dairy imports in both countries are subject to duties and health and sanitary regulations. However, quotas put in place to protect domestic price support programs are the main impediment to imports.

Assessing the relative competitiveness of the two dairy industries is difficult, although free trade would likely disrupt both countries' price support programs. Both countries have maintained support prices above world prices. Canada has operated under a quota system for 20 years, and quota values have been capitalized into input costs and land values. Thus, the United States probably has lower production costs, and would likely have more to gain—or less to lose—from free trade.

Product flow would likely increase primarily where regional competitive advantages are present—for example, dairy products moving from Wisconsin and Minnesota into the Prairie Provinces, from California into British Columbia, or between the major dairy provinces of Ontario and

Quebec and the northeastern United States. An increase in cheese exports between the two countries seems likely, given the different types of specialty cheeses produced and regional preferences.

Grains and Products

U.S. and Canadian grain production far exceed domestic needs, and both sell at highly competitive prices to similar customers. Both countries are large wheat exporters, but Canada imports some coarse grains for domestic feed. The United States ships rice, feed grains, and feeds and fodders to Canada, and imports feeds and fodders, wheat, barley, oats, and other grain products. The United States imports slightly more of these products than it ships to Canada.

Imports of all grains under the jurisdiction of the Canadian Wheat Board (CWB)—wheat, barley, and oats and their products—require import licenses. Imports are generally limited to products not available in Canada. Canada also levies a tariff on wheat imports, but import licensing requirements keep wheat imports to near zero. Canadian tariffs on corn imports are low and will be further reduced in 1987 as a result of the MTN. U.S. tariffs on wheat are not high enough to restrict imports from Canada, particularly in border regions where the transport cost advantage of the Canadian product and the exchange rate differential outweigh the tariff.

Free trade would likely produce increased flows of grain each way based on locational and temporary market advantages, as well as domestic policies such as Canada's subsidies on rail rates. Feed grains from the U.S. Corn Belt would profit from their locational advantage in serving the Quebec and Maritimes markets, while Canadian grains from the Prairies could move to the Montana and Colorado livestock producing areas.

Removal of trade barriers would affect the operations of the CWB, which now enjoys a monopoly position as a supplier of grain to the domestic food market. Trade liberalization could also affect subsidized freight rates on the transport of Canadian grain. Freight subsidies are viewed as potentially troublesome because of trade disputes arising from the designation of the United States as an export area, which allow freight-subsidized

shipments of Canadian grain to enter the United States.

Oilseeds and Products

The United States is a net exporter of oilseeds and oilseed byproducts to Canada, with soybeans and soybean meal the most important. Canada ships rapeseed meal to the United States. U.S.-Canadian oilseed trade is subject to relatively few restrictions, and tariffs are generally low. Canada imposes a 10-percent *ad valorem* tariff on soybean oil imports that keeps domestic rapeseed oil competitive with the U.S. product in the eastern Canadian market. A recent FDA ruling granting rapeseed oil GRAS (generally recognized as safe) status has removed a significant barrier to increased U.S. imports of rapeseed and rapeseed oil. Low Canadian freight rates to the U.S. market will further aid rapeseed shipments.

Eliminating tariffs on oilseeds and products would have little effect on bilateral trade. Canadian transportation policies which subsidize movement of rapeseed and its products have a greater influence on bilateral trade than do border measures.

Horticultural Products

The balance of trade in fruits, vegetables and nuts is strongly in the United States' favor. Canada is the largest export market for U.S. fresh fruits and vegetables, and its imports often substantially exceed domestic production. Canadian exports to the United States are small relative to total U.S. production.

Canada has a relatively short growing season for its fruits and vegetables and frequently applies seasonal tariffs to reduce heavy U.S. competition. Surtaxes are assessed by Canada on imports of horticultural products when import prices fall below predetermined trigger prices.

U.S. processors contend with a multitude of regulations and regulatory bodies in Canada governing packaging and labeling. Metric packaging restrictions and bilingual labeling requirements make it difficult to export processed horticultural products to Canada. Health and sanitary regulations may also constitute a barrier to Canadian imports of

U.S. products. Canada has lower tolerance levels than the United States for some pesticides, and residues found in excess of established tolerance levels, or of pesticides not registered for use in Canada, can result in produce being detained or returned at the border.

U.S. tariffs on some fruits are scheduled to be reduced or eliminated in 1987 as a result of the MTN. Tariffs on potatoes will be lowered and equalized between the two countries. U.S. law requires that imports meet the same standards of grade, size, and maturity that apply to the domestic product under marketing orders. This affects only potatoes and onions from Canada.

Free trade in horticultural products would likely lead to an expansion of U.S. exports of fruits and vegetables (particularly fresh) to Canada. Free trade would thus reduce the power of provincial fruit and vegetable marketing boards to negotiate prices and to control market flow. Potatoes move across the border in both directions—from New Brunswick and Prince Edward Island into the northeastern United States and from the northwestern United States into western Canada. Barring a realignment of the U.S.-Canadian exchange rate, current patterns of trade would be reinforced by a relaxation of border restrictions. An appreciation in the value of the Canadian dollar, however, would remove much of the incentive for large increases in U.S. potato imports.

Sugar and Sugar Products

Both countries import raw sugar from third countries and export refined and processed products to each other and to third countries. Canadian raw sugar imports are unrestricted, and tariffs are low. U.S. producers receive support prices higher than world prices and are protected from cheaper imports through duties, fees, and, since 1982, country-by-country quotas.

U.S.-Canadian sugar trade has been marked with disputes recently. In April 1980, the United States imposed anti-dumping duties on Canadian exports of refined sugar. In June 1983, the United States imposed a "zero quota" or ban on certain sugar blends and mixtures, most of which were coming from Canada. In late 1983, Canada initiated an

anti-dumping case against U.S. exports of refined sugar. The case was later settled in favor of the United States.

Earlier this year, the United States placed emergency quotas on various sugar-containing products under Section 22 of the 1930 Agricultural Adjustment Act, which allows quotas or fees on imports that interfere with U.S. price support programs. Canada reacted by requesting a GATT panel to consider compensation for trade damages.

Removal of current quotas on sugar and products would benefit Canada more than the United States, especially at current low world prices. Although Canada is a small sugarbeet producer and has limited refining capacity, lifting U.S. trade restrictions would induce a flood of refined sugar imports and sugar products into the United States and would severely disrupt the U.S. sugar program.

Wine and Malt Beverages

Trade in malt beverages (beer and ale) and wines is subject to significant tariff and nontariff barriers. The United States is a net importer of these products from Canada. Imports are dominated by beer; wine imports from Canada are negligible. Canada is the largest market for U.S. wine exports.

While tariffs are high in both directions, nontariff barriers effectively limit U.S. access to the Canadian market for beer and wines. Distribution of alcoholic beverages in Canada is controlled by provincial liquor control boards whose monopoly privileges permit discriminatory practices that hurt U.S. exports. Differential retail markups that are much higher on imported beers and wines than on the locally-produced or domestic product are a common practice in some provinces, including British Columbia, Ontario, and Quebec. Some provinces also assess per-bottle handling surcharges on imported wines. Mixing regulations limit the foreign grape content of Ontario and British Columbia wines, and, except in years of shortages, provide Ontario with authority to virtually ban imported grapes for winemaking.

A free trade agreement that eliminated discriminatory practices by provincial liquor boards would likely expand U.S. exports of

wine and grapes for winemaking to Canada. Removal of import protection would probably hurt Canada's domestic wine industry. Grape production in particular would suffer if borders were opened to U.S. grapes for blending purposes. Elimination of tariffs on Canadian alcoholic beverages would produce only a small increase in U.S. imports, because tariffs are a small part of the total price to U.S. consumers.

Conclusions

Under a free trade agreement, agricultural trade between the two countries would likely increase for several commodities based on locational and temporary market advantages, and would likely reinforce current regional trade patterns. However, both countries are concerned over the possible impacts of free trade on their agricultural sectors. In the last year, the United States has seen a surplus in agricultural trade with Canada become a deficit. The current exchange rate provides Canada with a temporary price advantage, and free trade would extend this advantage to some commodity exports that are now restricted. Canada, on the other hand, is concerned with the effects of opening its border to the larger U.S. market.

Tariffs on most agricultural products in both countries are low and generally not restrictive of trade. An exception is Canadian seasonal duties on fresh vegetable imports. Nontariff barriers and domestic agricultural policies exert a greater influence on trade patterns than do tariffs. Removal of trade barriers could lead to significant adjustments in several sectors. Free trade in dairy products could disrupt the price support programs in both countries. If U.S. sugar quotas were removed, increased Canadian exports of sugar and products to the United States would interfere with the U.S. sugar program. Canada's poultry and egg sector, wine, and horticultural products are heavily protected by various domestic policies and trade restrictions, and would be disadvantaged by increased U.S. exports. Despite the domestic adjustments implied by freer trade, both countries could reap benefits in the form of lower consumer prices, greater efficiencies in production, and improved access to a large, high-income market.

WORLD SHIPPING COMPETITION TO REMAIN KEEN

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Abstract: The availability and cost of international transportation services influence U.S. competitiveness in world markets and play a role in market development and expansion. Currently, freight rates are depressed and the outlook for world shipping profits is bleak. The sustained slump in world shipping rates has helped maintain and expand current markets for agricultural products. However, the present overcapacity in shipping has motivated many foreign governments to increase their protection of shipping.

Keywords: Charter and liner shipping services, fixtures, voyage, time, and bareboat charters, charter party, conferences, common carriers, overtonnaging, and protectionism.

U.S. agricultural exports were valued at over \$31.2 billion in fiscal 1985. Given the large volume of farm exports, enormous and complex transportation services are needed to deliver these products to foreign destinations. Transportation costs are 15-30 percent of the overall price of farm exports, and are the major component of the marketing bill. Therefore, ensuring that U.S. exporters have access to the most efficient transportation services available can decrease the per unit cost of exports and increase U.S. competitiveness.

A Look at World Shipping

An examination of world shipping markets reveals freight rates at a 5-year low and a tremendous excess shipping capacity. The availability and cost of international transportation services influence U.S. competitiveness in world markets and play a role in market development and expansion. Transportation expenses also influence farm and retail food prices. The degree of this influence, however, depends upon a number of factors, such as the elasticity of demand for a particular product. In general, any increase in transportation costs is borne in the short run by the producer; but in the long run, increases are shared by the producer and the importer-consumer. The proportion of the increase borne by each group reflects the relative elasticities of export supply and import demand for a particular product.

U.S. agricultural exports are transported overseas primarily by merchant vessels. There

are two distinct markets in international shipping—charter and liner services. Each type of service is differentiated by how it operates and how it is regulated.

The Charter Market

The charter market is highly competitive. A large number of firms participate and rates are determined by the interaction of the buyers and sellers of services. Agricultural products transported by charter vessels include dry bulk commodities like wheat, corn, and soybeans.

Dry-bulk carriers do not offer regularly scheduled service but offer all or part of their vessels for hire by shippers. The terms of each shipping transaction are called a fixture and are specified in a contract called a charter party. There are three basic types of

Selected market indicators

Year	World fleet size	Deliveries of new vessels	Broken and lost	Tonnage Laid up	On order
Million deadweight tons					
1974	439.9	59.6	6.0	3.6	242.3
1975	493.9	61.9	11.8	48.7	212.2
1976	543.7	61.1	14.1	36.3	127.0
1977	591.3	44.4	12.6	41.0	79.2
1978	624.6	27.0	19.1	28.9	50.1
1979	632.7	18.8	14.4	9.8	32.0
1980	637.9	18.4	12.9	8.3	44.1
1981	641.3	23.6	15.2	21.0	57.1
1982	648.7	25.6	29.9	80.2	56.2
1983	643.0	22.6	32.7	73.9	41.3
1984	632.4	23.5	28.5	58.9	47.9
1985	627.3	NA	NA	NA	46.1

NA = not available

Source: Fearnleys

charter parties--the voyage, time, and bareboat charters--and each specifies the particulars of a cargo movement, the description of the vessel to be used, the responsibility and liability of the principals, and the consideration received by the owner. Differences among the types of charter parties relate to how the responsibility (and its accompanying risk) is divided between the shipowner and the charterer.

In a voyage charter, the most common form of shipping arrangement, the charterer leases a vessel for a single voyage and the shipowner is responsible for the entire operation of the ship. In turn, the shipper pays a rate per ton and any expenses incurred for taking longer than the expected amount of time to load and unload the vessel.

In a time charter agreement, the exporters contract to use a vessel for a period of time and, although they pay a flat rate, the exporters are responsible for fuel, port, canal, loading, and discharging expenses. With the assumption of greater risks by the charterer (such as increases in fuel or other charges between the time arrangements are made and the cargo leaves the port), exporters are able to achieve greater economies in shipping costs.

Finally, in a bareboat charter, the charterer assumes almost full responsibility for the vessel. In many ways the time and bareboat charters are analogous. The two differ in that a bareboat charterer acts as the owner.

Dry bulk services are traded on the Baltic Exchange in London and worldwide through various telecommunications services. The buyers and sellers of services enter the market through brokers who act in their behalf. There is no regulatory body that oversees transactions. Rather, given the rapidly fluctuating nature of the bulk market, verbal agreements are important to the conduct of business, and the ship brokering profession is characterized by high standards of integrity.

The Liner Market

In contrast to the highly competitive charter market, the liner market is characterized by cartels and strict regulation of carrier activities both in the United States and elsewhere. Products transported on liner

vessels include a wide array of high-value, packaged agricultural products and perishable fresh fruits and vegetables. In turn, liner services are diverse and include vessels with permanent container cells; specialized refrigerated, livestock, or timber carriers; and ships especially designed to carry wheeled containers, trailers, or barges.

Liner carriers are considered to be common carriers in that they offer regularly scheduled services on designated trade routes. In the liner market a large portion of a carrier's total costs are fixed and cannot be traced directly to the carriage of specific cargoes. Overtonnaging (an excess of supply over demand) due to overbuilding frequently occurs. Both of these factors motivate the formation of ratemaking cartels, called conferences.

Each conference is organized around a particular trade route, such as the U.S. Atlantic-North Europe Conference. The conference system, by limiting competition, attempts to avoid the destructive ratemaking that is characteristic in the liner industry. Each conference limits competition by fixing rates and services on the trade route they serve.

However, not all carriers belong to conferences. A small number of nonconference liner carriers, known as "independents," operate on some trade routes and compete with the conferences for available cargoes.

All carriers and conferences serving in U.S. foreign trade are subject to U.S. shipping regulations. The Shipping Act of 1984 governs liner operations, and the Federal Maritime Commission (FMC) is the regulatory agency that oversees the enforcement of the shipping laws. The principal features of U.S. liner shipping laws include:

- o open conferences--conferences must be open to all that wish to join (elsewhere in the world, conferences are closed);
- o a ban against fighting ships--the practice of setting the rates on a particular conference ship so low that nonconference competition is forced out of business;

- o the prohibition against nonpatronage discrimination—any practice that discriminates against shippers as punishment for nonpatronage; and,
- o the prohibition of other discriminatory or anticompetitive practices.

Carriers and conferences are required to file all agreements and tariffs with the FMC, but all agreements are enacted automatically unless challenged by the FMC.

A Third of the World Fleet Is Surplus

Excess capacity remains a persistent characteristic of the world merchant fleet. Currently, surplus tonnage in the world's merchant marine represents more than a third of the total tonnage (surplus tonnage is calculated by subtracting the tonnage laid up, idle, or absorbed by slow steaming, from the total fleet). The overtonnaging problem, however, is more significant for the dry bulk sector of the market, which was 32 percent during the first half of 1985, than for the liner sector, which was 8 percent during the same period. Growth in demand for liner shipping was high between 1978 and 1983—while world trade grew at an average annual rate of 2 percent, container traffic grew nearly 12 percent—but this growth has now peaked and today's liner market resembles the bulk market in that rates are in a slump and the competition for available cargoes is fierce.

The reasons for the current shipping slump include: the downturn in world trade that began in 1981; lower-than-expected demolitions and losses; and too many new vessel orders, given the requirements of the shipping market. In turn, the large volume of new buildings is due in part to the favorable prices and terms shipyards are offering on new vessels.

The outlook is bleak for improvements in the tonnage balance. The delivery of new vessels is expected to stabilize at 20–25 million deadweight tons (mdwt) per year and although the rate of demolition is expected to remain about 25 mdwt, the amount of laid-up tonnage is expected to decrease. The net result will be little or no reduction in the supply of shipping services over the next couple of years.

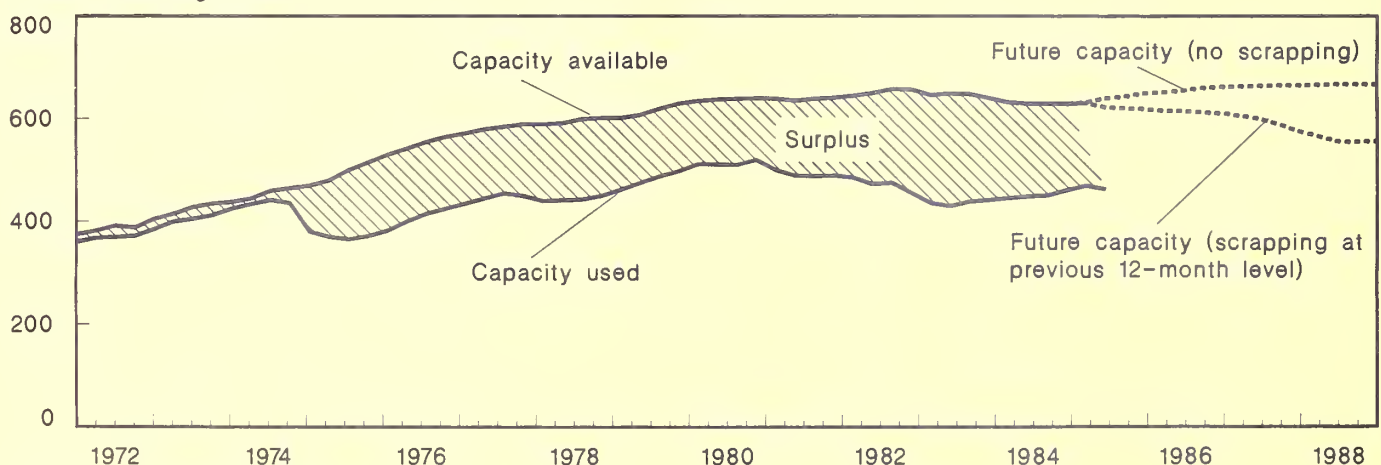
Although the demand for shipping services grew as the volume of world trade rose an estimated 6 percent from 1983 to 1984, there was no appreciable improvement in shipping market conditions. Given the magnitude of the excess capacity, any further upturn in trade, which is expected to be somewhat less than during 1984, is not expected to improve world shipping profits.

Freight Rates Remain Depressed

Despite temporary fluctuations in certain sectors of the market, freight rates remain depressed. In the single-voyage dry bulk

World Merchant Shipping Surplus Continues

Million deadweight tons



Source: Lloyd's "Shipping Economist".

market, average freight rates dropped from \$28.65 per ton in 1980 to \$15.00 in 1984 for carrying grain from the U.S. Gulf to Japan. Single voyage rates for shipping grain from the U.S. Gulf to Rotterdam and 12 month timecharters have shown similar decreases, so that rates averaged about 50 percent lower in 1984 than in 1980.

Freight rates for liner cargoes, as measured by the German Liner Freight Index, fell in 1983. This drop was the first since the Index was established in 1965 and signaled the start of the intense competition that now characterizes this market. In turn, the intensifying competition in liner shipping is due to the dramatic drop in demand for containerized shipping services and the introduction of a significant amount of additional capacity. In 1984, conditions improved somewhat, only to deteriorate again during the first two quarters of 1985.

Freight Slump Has Mixed Effects

The sustained slump in world shipping has forced many shipowners out of business, and has motivated many usually accommodating financial creditors to seek to liquidate their shipping holdings at tremendous losses, rather than wait for further improvements.

The effects of current shipping market conditions on agricultural shippers are varied. On the positive side, the low freight rates that shippers can now obtain contribute to export market development, expansion, and competition. On the negative side, the present overcapacity in shipping markets has motivated many foreign governments to increase their protection of shipping markets.

The protection of a country's merchant marine is most commonly accomplished by reserving some or all of a nation's trade for its national carriers. In industrialized or developed countries, cargo reservation is achieved through closed conferences (except

Bulk cargo freight rates

Year	1980	1981	1982	1983	1984
Index 1/	213.3	195.5	158.9	170.3	172.6
Dollars per long ton					
Single voyage 2/ U.S. Gulf to					
ARA	18.15	13.20	8.95	8.35	8.95
Japan	28.65	24.60	16.15	16.40	15.00
12 mo. time- charters					
25,000 dwt.	10.05	9.15	5.40	4.65	4.75
50,000 dwt.	6.35	5.85	2.60	2.60	3.30
100,000 dwt.	4.25	3.05	1.25	1.50	2.25

1/ 1965/66=100, Norwegian Shipping News. 2/ Rates are based on grain cargo sizes of 50-55,000 tons.

ARA = Rotterdam, Netherlands.

Source: Fearnleys

in the United States where conferences are required to be open). In less developed or developing countries, government intervention is typically more pronounced with state ownership of shipping lines.

U.S. maritime laws require that 50-100 percent of government-impelled cargoes (cargo that is owned or financed by the U.S. Government) be reserved for U.S. built, owned, and crewed vessels. This type of reservation is called cargo preference. For U.S. agricultural exports, preference for U.S.-flag vessels has applied to 50 percent of the U.S. Department of Agriculture's Food for Peace sales and donations, as well as donations under Section 416 of the Agricultural Act of 1949.

The net effect of protectionism is that it encourages the development of additional shipping capability at a time when there is a large surplus and results in rates and services that are usually less favorable than would otherwise be available under more competitive conditions. [Kay L. McLennan (202) 786-1621]

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